Activities of the Bank

This chapter presents an overview of the main activities of the Bank during the past financial year. These activities continued to focus on the promotion of cooperation among the central banking and regulatory community in the area of financial and monetary stability, and on the provision of high-quality financial instruments and services, mainly to central banks. The chapter also documents a number of important changes in the Bank's Statutes and organisation. The reports mentioned in this overview, as well as much of the Bank's research output, 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

At the heart of the Bank's contribution to international financial cooperation remained the bimonthly meetings of Governors of BIS member central banks and the work supported by the secretariats of the various committees reporting to the G10 Governors. As BIS membership has expanded markedly over the course of the last six years, the meetings, discussion themes and cooperative efforts have taken on an increasingly global character. This trend towards greater inclusiveness was reinforced by the growing activities of the Bank's Financial Stability Institute, the development of the BIS Representative Office for Asia and the Pacific in Hong Kong SAR and the decision to establish a Representative Office for the Americas in Mexico City. A further building block of cooperation in Asia was the establishment of the Asian Consultative Council in March 2001.

Regular consultations on monetary and financial issues

During the period under review, Governors and senior officials of the BIS member central banks met on a bimonthly basis to discuss the current state of the world economy, developments in financial markets and topical issues of special interest or concern to central banks. One such meeting was held outside Basel, being hosted by the Bank of Mexico in November 2000.

A comprehensive review of developments in the world economy and international financial markets continued to be the focus of the *Global Economy Meetings*, which bring together the central bank Governors of the main industrial and emerging market economies. Governors welcomed the opportunity to exchange views and information on key developments, especially given what appeared to be a significant change of phase in the business cycle. Moreover, the discussions helped increase their shared awareness of vulnerabilities and emerging imbalances.

A closer evaluation of the specific features of the conjunctural situation, as well as the review of discussions and work in progress in the various committees reporting to them, made up the agenda of the *meetings of the Governors of the G10 countries* during the past year. In addition, the G10 Governors approved for release or for public consultation a number of committee reports (see below). Finally, Governors met with Heads of Supervision of the G10 countries in May 2000 and May 2001 to discuss a variety of topics of common interest, including the proposed New Basel Capital Accord, fair value accounting and dealing with large and complex financial institutions.

At the bimonthly gatherings of central bank Governors, a specific meeting is devoted to an in-depth discussion of a topic of particular relevance to central banks. Governors of all BIS member central banks are invited to this meeting. During the period under review, discussions in these *All Governors' Meetings* focused on a wide range of themes in the areas of monetary policy and financial stability, including liquidity trends in government bond markets, consolidation in the banking industry, procyclicality and prudential regulation, inflation and the monetary policy framework in emerging markets, and the implementation of standards and codes to strengthen financial systems.

The *Gold and Foreign Exchange Committee*, composed of financial market experts from the G10 central banks, also met on a bimonthly basis last year. On a number of occasions, participation in these meetings was enlarged to include representatives of the major emerging markets. Exchange rate relationships between the major currencies dominated the agenda of last year's meetings. In addition, participants discussed specific topics of importance to market operators, such as the merits of official intervention, the implications of a shrinking supply of government securities for the conduct of monetary policy, and liquidity in foreign exchange markets.

The Bank continued to collect, analyse and disseminate information relating to the governance of central banks. Demand for this information was strong during the year, as central banks in a changing environment sought to learn from the experience of their peers. This work continued to be guided by a Steering Group in which central bank Governors of industrial and emerging market economies are represented. To meet demand, extensive use was made of a central bank governance network which the Bank administers and in which roughly 40 central banks participate. This informal grouping allowed the Bank to supply up-to-date comparative information on governance questions of urgent concern to central banks, and at the same time to expand its knowledge base. Finally, last year a meeting of senior central bank representatives from around the globe was held on the governance of central banks in times of change.

A variety of special meetings involving senior central bank officials were arranged over the past year. A special Governors' seminar was held in March 2001 to discuss risk management practices in financial institutions. The Monetary and Economic Department again organised two meetings with senior central bank economists, one of which was devoted to a discussion of the micro- and macroprudential dimensions of financial stability, while the other addressed conjunctural issues. In addition, several workshops were held on inflation targets and the inflation process in industrial and emerging markets, e-finance and market liquidity. An increasingly common feature of these special meetings has been the active involvement of the private sector in the discussions.

Reflecting the global character of the Bank's cooperative efforts, meetings primarily involving senior central bank officials from the emerging market economies continued to mark last year's activities. In addition to the regular monetary policy working party held in Latin America (hosted by the Bank of Mexico in November 2000), a monetary policy meeting was organised for Deputy Governors of African central banks (hosted by the South African Reserve Bank in October 2000). Similar meetings are scheduled for May 2001 in Asia (hosted by The People's Bank of China) and for July 2001 in eastern Europe. The now well established two-day meeting of Deputy Governors from emerging market economies was held in Basel in December 2000. They discussed competition, consolidation and systemic stability in their financial sectors.

Promotion of financial stability through the permanent committees

The three committees established by the G10 central banks and supported by the BIS once again made a significant contribution to the promotion of financial stability over the period under review. As in the past, this objective was considered from three different, though complementary, angles: institutional soundness (the Basel Committee on Banking Supervision), efficient market functioning (the Committee on the Global Financial System) and a robust payments infrastructure (the Committee on Payment and Settlement Systems). Given this diversity of 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.

Basel Committee on Banking Supervision

During the past 12 months the Basel Committee on Banking Supervision continued to develop supervisory guidance on a number of key banking issues. The most prominent initiative was the release of a second consultative paper on the New Basel Capital Accord (due to take effect in 2004). The Committee also issued several important policy papers designed to encourage bank supervisors around the world to strengthen their supervisory capabilities in a range of areas. In September 2000, the BIS in association with the Swiss National Bank and the Swiss Federal Banking Commission hosted the 11th biennial International Conference of Banking Supervisors, which was organised by the Basel Committee and was attended by 260 participants from nearly 130 countries.

The proposed New Basel Capital Accord was set out in an extensive package of documents released on 16 January 2001. Its conceptual framework remains similar to the original consultative proposal of June 1999, described in last year's Annual Report, with a balanced approach based on three equally important pillars (a minimum quantitative ratio, supervisory review and disclosure requirements). However, a great deal of detail has been added as a result of consultation with the industry and with non-G10 supervisors. Most of the comments received focused on the first, quantitative pillar. Although intended primarily for internationally active banks, the proposed New Accord is deliberately designed to be capable of application to banks of varying levels of sophistication. The need to provide a range of options to meet this requirement explains to some extent the complexity of the proposals.

Particular features of the January 2001 paper are refinements in the approaches towards measuring credit risk under the first pillar, as well as the formulation of more risk-sensitive approaches to the treatment of collateral, guarantees, credit derivatives, netting and securitisation. In addition, for the first time, a framework is set for applying a quantitative capital charge for operational risk.

The second principal focus of the work of the Basel Committee over the period under review was the development of prudential standards suitable for global implementation. The Committee's role in this area has been significantly enhanced by the joint IMF-World Bank Financial Sector Assessment Program, which gauges individual countries' compliance with international standards and codes. The Basel Committee's 1997 Core Principles for Effective Banking Supervision and 1999 Core Principles Methodology have been key tools in this exercise. As a result of the assessments conducted up to April 2001, and discussion in the Core Principles Liaison Group of G10 and non-G10 countries, the Committee plans to begin a review of the Core Principles at an early date with a view to issuing a new set of Core Principles in 2002. The Core Principles Liaison Group itself had an active year, and created working groups to discuss capital and guidance to facilitate Core Principles self-assessment.

The Basel Committee maintained an intensive dialogue with supervisors in non-member countries. Its Secretariat was represented at most meetings of regional supervisory groups and responded to frequent queries and requests for assistance. It also engaged, as necessary, in the extensive programme of technical training and assistance now conducted through the Financial Stability Institute (see below). In addition to circulating relevant documents as they were issued, the Committee's Secretariat prepared and distributed an annual Compendium of pertinent policy documents, and regularly circulated a Contact List of supervisory personnel in 170 countries. The most visible aspect of its global outreach was the biennial International Conference.

The Basel Committee continued to regularly publish guidance on specific prudential topics. Over the past year, this included papers addressing credit risk assessment, electronic banking, customer due diligence, foreign exchange settlement risk, credit risk disclosure, internal audit, relations between supervisors and external auditors, and issues relating to highly leveraged institutions. Two working papers on external ratings and early warning systems were released. Moreover, the Committee maintained its dialogue with the international accounting bodies on fair value accounting and other relevant issues.

Committee on the Global Financial System

The Committee on the Global Financial System (CGFS) carried on its regular monitoring of international financial markets and the functioning of the global financial system. Prime areas of interest were the assessment and analysis of factors which could constitute vulnerabilities for financial systems, both domestic and international, and in turn pose a threat to the functioning of major industrial and emerging market economies.

The Committee followed up on work previously carried out in the area of market liquidity and stress testing. A meeting between a number of CGFS members and private sector representatives explored the extent to which changes in institutions' risk management procedures might affect market liquidity. The main findings of this exercise, together with the results of previous Committee work, were reported to the Financial Stability Forum (FSF).

In early 2000, the CGFS started a survey on stress testing practices. Forty-three banks from 10 countries participated in the census, which was initiated to gain insights into the role of stress testing in risk management and to identify which exceptional events were considered to be significant risks. The report was released for comment in late April 2001.

A working group set up to study the implications of electronic trading in financial markets published its report in January 2001. The report analyses the usage of electronic trading systems in foreign exchange and fixed income markets and its impact on market structure, efficiency and transparency. It focuses in particular on financial stability issues such as liquidity in periods of stress. The CGFS also continued to monitor technological changes and their implications for financial markets and was represented in the Contact Group on E-Finance established by the FSF.

Another CGFS working group published a report on recent trends, risk management and market dynamics in wholesale markets in March 2001. The report assesses changes in the usage and availability of collateral and how these changes might alter market dynamics especially at times of stress. In order to track developments that could have an impact on monetary policy or financial stability, the Committee established a working group to study the financing of the new economy. The terms of reference of the group's work include consideration of innovations in financing practices and related risks, as well as possible changes in the role of different providers of financial services.

In September 2000, the Working Group on the BIS International Banking Statistics published its report containing proposals for redesigning the consolidated banking statistics in order to present data on an ultimate risk basis, and for strengthening the coverage of derivatives exposures and contingent liabilities. These proposals are essentially consistent with the recommendations made by the FSF Working Group on Capital Flows. Finally the CGFS, together with the Basel Committee, the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO), sponsored the report of the Multidisciplinary Working Group on Enhanced Disclosure, which was forwarded to the FSF in March 2001.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems (CPSS) pursued its efforts to promote robust payment and settlement systems and thereby strengthen financial market infrastructures and reduce systemic risk. The Committee intensified its cooperation with other international groupings, particularly IOSCO, and also made a considerable effort to associate a widening group of non-G10 central banks with its work.

In January 2001, the CPSS published the Core Principles for Systemically Important Payment Systems, after two rounds of worldwide public consultation. The Core Principles provide guidance for central banks, international organisations and payment system designers and operators in their efforts to improve the design and efficiency of payment systems. As an indication of their importance for financial stability, adherence to the Core Principles has formed one aspect of country assessments under the joint IMF-World Bank Financial Sector Assessment Program, as well as in the Reports on the Observance of Standards and Codes.

Reflecting a heightened awareness of the need for central banks to address issues pertaining to payment systems, the Core Principles report emphasises inter alia the role of central banks in overseeing compliance with the Core Principles and the need for cooperation among central banks. A suggested framework for cooperation has been increasingly used by central banks, with the support of the CPSS, in order to oversee systems with cross-border or multicurrency characteristics.

In the framework of their standard-setting activities, the CPSS and IOSCO published in January 2001 a consultative report setting out recommendations aimed at improving the safety and efficiency of securities settlement systems worldwide, including cross-border arrangements. The recommendations are expected to be finalised by the end of this year.

A key aspect of the Committee's ongoing work was related to the implementation of the strategy, agreed by the G10 Governors in 1996, to reduce foreign exchange settlement risk. As a core element of the G10 strategy, the Committee continued to monitor and encourage private sector initiatives in this area. It also cooperated with the Basel Committee to develop international supervisory guidance for banks on the prudential management and control of foreign exchange settlement risk.

The Committee's Working Group on Retail Payment Systems continued to review and report on retail payment instruments, systems and related policy issues. With respect to electronic money, the Committee, through its Secretariat at the BIS, continued to monitor global developments in card-based and network-based products.

The Committee strengthened its cooperation with non-G10 central banks, particularly those of emerging market economies. Its Secretariat helped various individual central banks and regional central banking groups to prepare publications describing the payment systems in their country or geographical area. The Committee also supported payment system workshops and seminars organised by the BIS in cooperation with regional central banking groups. Following its first meeting in the western hemisphere in May 2000, the

Committee organised a workshop for central banks and monetary authorities from CPSS member countries, Latin America and the Caribbean in Mexico City.

Representative Office for Asia and the Pacific

The Representative Office for Asia and the Pacific (the Asian Office), which was opened in July 1998, continued to foster information exchange and cooperation among central banks in the region, and between them and central banks in the rest of the world. Its activities included: hosting meetings of central bank officials from within and outside the region; contributing to the Bank's financial and economic research and analysis of the Asian and Pacific region; and promoting banking relationships with regional central bank customers. Two major initiatives during the year were the start of dealing room operations at the Asian Office and the creation of the Asian Consultative Council (ACC).

Following a Board decision to expand the BIS's banking activities in the region, a Regional Treasury dealing room commenced operations in October 2000 as an integral part of the BIS Banking Department. The new dealing room provides banking services to central banks during trading hours in the Asian time zone. It also serves to strengthen banking relationships with commercial counterparties in the region.

The purpose of the ACC, which was established in early 2001 and comprises the Governors of the BIS member central banks in the Asian and Pacific region, is to provide a vehicle for communication between the Asian and Pacific members of the BIS and the Board and Management on matters of interest to the central bank community in the region. Ian Macfarlane, Governor of the Reserve Bank of Australia, was appointed as the first Chairman of the ACC, with the Asian Office providing the secretariat services for its meetings, which will be held at least once a year.

During the period under review, the Asian Office supported and often hosted a range of meetings. It organised an ad hoc workshop for central bankers in the region in April 2000 to discuss statistical and economic aspects of foreign borrowing by the private sector. In December 2000, the Banking Department and the Asian Office, with the support of the Monetary and Economic Department, held a seminar for reserve managers on the implications of shrinking government debt markets. The third Special Governors' Meeting was held in February 2001 and brought together Governors from the region as well as from selected non-Asian central banks. In addition, the Asian Office hosted a number of meetings in the region in support of various G10 committees, including, with the Hong Kong Monetary Authority, a discussion among regional regulators and commercial bankers of the proposed New Basel Capital Accord.

The Asian Office worked closely with regional groupings of central banks. In October 2000, at the request of the EMEAP (Executives' Meeting of East Asia-Pacific Central Banks) Working Group on Banking Supervision, it co-hosted with the Hong Kong Monetary Authority a seminar of the Financial Stability Institute on derivatives risk and regulation. In late 2000, the Asian Office hosted and participated in the second EMEAP Forum on foreign exchange and other financial markets. The Asian Office also took part in meetings organised by regional institutions, as well as various conferences sponsored by central banks, official or private institutions and academic establishments in the region.

Financial Stability Institute

The mandate of the Financial Stability Institute (FSI) is to help improve and strengthen financial systems and institutions globally, primarily by discussing with supervisory authorities how prudential supervision might be strengthened. The FSI also assists them in implementing the necessary supervisory policies and procedures. The objectives of the FSI have been met in various ways, in particular by organising focused seminars and regional workshops for senior financial sector supervisors worldwide. These events have been designed to provide participants with a better understanding of supervisory techniques and an opportunity to learn about the latest supervisory developments. The Institute's work to date has concentrated on banking issues, given that banking is the primary form of financial intermediation in many parts of the world. However, in view of continuing financial integration, seminars on securities and insurance supervision are gradually being added to the FSI programme, which should eventually extend to all aspects of financial stability.

Over the past year, the FSI organised nine focused seminars in Basel and 15 regional workshops held jointly with regional groups of supervisors. These meetings covered a variety of topics chosen after consultation with supervisors around the world. The topics included risk management, corporate governance, consolidated supervision, resolution of problem banks and implementation of the Core Principles for Effective Banking Supervision. Special emphasis was placed on providing non-G10 supervisors with a better understanding of the proposed changes to the Basel Capital Accord. This effort will continue through the implementation phase of the New Accord. The FSI also held several special seminars, including one on credit and market risk for central bank Deputy Governors, one on risk management for insurance supervisors, and several on deposit insurance issues. Over 1,100 representatives of supervisory agencies from around the world participated in FSI events last year.

The FSI also instituted a process of inviting leading experts and academics to write on topics of interest to financial sector supervisors. The first FSI Occasional Paper on the organisational structure of banking supervision was issued in November 2000.

Cooperation with other institutions providing programmes of assistance to supervisors remained an important part of the FSI's work. Over the period under review, the FSI coordinated activities and collaborated with such organisations as the Toronto Centre, the IMF Institute, the World Bank and regional development banks. The FSI also supported the commitment of the BIS to the Joint Vienna Institute by organising two banking seminars for the JVI.

At the end of 2000, Josef Tošovský succeeded John Heimann as Chairman of the FSI.

2. BIS contributions to broader international financial cooperation

Group of Ten

As in the past, the BIS contributed last year to work undertaken by the G10 Finance Ministers and central bank Governors, their Deputies and the working parties set up under their auspices. It both participated as an observer institution and provided secretariat support. During the period under review, a G10 working party prepared an in-depth study on consolidation in the financial sector that was endorsed by G10 Finance Ministers and central bank Governors and published in January 2001. Australia and Spain were invited to participate in this work. The study contains a detailed analysis of patterns and causes of financial sector consolidation in 13 countries, and assesses its implications for financial risk, monetary policy, efficiency, competition and credit flows, as well as for payment and settlement systems. It also identifies areas where further policy development is advisable. Such work was subsequently set in train. In addition, the G10 continued to support broadly based dialogue on ways to prevent and resolve financial crises.

Financial Stability Forum

The FSF was established in early 1999 to promote international financial stability through enhanced information exchange and cooperation in financial supervision and surveillance. It brings together on a regular basis senior representatives from international financial institutions (including the BIS), international groupings of regulators and supervisors, committees of central bank experts, and national authorities responsible for financial stability in significant international financial centres. The FSF is chaired by Andrew Crockett, General Manager of the BIS, in a personal capacity. Detailed information on the FSF, its membership and activities is available on its website (www.fsforum.org). This website includes a Compendium of Standards – a common reference for the various economic and financial standards that are internationally accepted as relevant to sound financial systems. The website also contains a directory of training opportunities worldwide in the field of financial supervision; this is a joint product of the BIS, FSI, IMF and World Bank.

A key activity of the FSF is to exchange views and pool information on vulnerabilities in the financial system. At its meeting in March 2001, FSF members concluded that major financial markets and institutions had absorbed current strains well. Nevertheless, the interaction between the cyclical slowdown and pre-existing financial imbalances called for continued vigilance and enhanced cooperation at the supervisory level. A reassessment of vulnerabilities should be undertaken if conditions were to deteriorate. The FSF also identified risk transfer mechanisms as a potential element of vulnerability in financial markets, and considered the role of new instruments and new financial technology in propagating herd behaviour as another potential source of risk in the financial system. The Forum stressed the importance and urgency of further work on these issues.

The FSF also regularly reviews the progress made in implementing its earlier recommendations on highly leveraged institutions, capital flows and offshore financial centres, and on fostering implementation of international standards for sound financial systems. At the March 2001 meeting, it recognised that efforts had been made across a wide range of areas, but emphasised the importance of maintaining momentum in ongoing implementation efforts, and called for concrete actions by national authorities and the private sector.

In the light of concerns about the possible repercussions of the disorderly failure of a very large and complex financial institution (LCFI), including for the stability of the international financial system, the FSF, the G10 Ministers and Governors and the Basel Committee formed a joint task force in 2000 to review the main issues likely to be faced in winding down an LCFI. A number of preparatory measures were identified, which, along with national contingency procedures, are now being reviewed by various national authorities and will also be followed up at the international level.

Also at its March 2001 meeting, the FSF identified gaps in the development of international guidance on dealing with weak banks and systemic banking problems and asked the Basel Committee, through its Core Principles Liaison Group, to examine this issue. It also reviewed progress in developing international guidance on deposit insurance schemes; discussed the implications of e-finance for supervision and market functioning, drawing on the work of a contact group launched earlier by the FSF; and considered other international financial issues, including the New Basel Capital Accord and accounting and provisioning issues for financial institutions.

As part of its outreach to non-members, the FSF recently initiated regional meetings to promote discussion among regional FSF and non-FSF members on financial system vulnerabilities and to enable non-members to bring their own perspectives into the FSF's work. A first such meeting was held in Mexico City in early April this year with senior officials responsible for financial stability in seven Latin American countries and Spain, along with some FSF members. Participants exchanged views on vulnerabilities in the domestic and international financial systems, and discussed domestic and international initiatives to strengthen the soundness of financial systems.

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. In collaboration with other international bodies (in the framework of the Joint Forum of the Basel Committee, IOSCO and the IAIS), the IAIS has also helped develop principles for the supervision of financial conglomerates. Moreover, the IAIS actively participates in the Financial Stability Forum.

To date, the IAIS has issued several sets of principles and guidance, including the Insurance Core Principles, the Insurance Concordat and Guidance on Insurance Regulation and Supervision for Emerging Market Economies, as well as a wide range of papers setting out supervisory standards in the insurance area. Last year, the IAIS published the Insurance Core Principles Methodology, the Principles on the Supervision of Insurance Activities on the Internet, the Supervisory Standard on Group Coordination, and the Guidance Paper for Fit and Proper Principles and their Application. Ongoing work includes formulating standards in the areas of solvency (capital adequacy) requirements, insurance accounting, reinsurance, market risk, electronic commerce, transparency, and the prevention of financial crime and regulatory abuse.

The IAIS arranged several training programmes and provided training materials for insurance supervisors in order to help members comply with IAIS supervisory standards. Over the period under review, it organised regional training seminars for insurance supervisors in Africa, Asia, central and eastern Europe, Latin America and offshore jurisdictions.

3. Other areas of central bank cooperation

Cooperation on statistical issues

The BIS continued its active cooperation with central banks and other international organisations on various statistical issues. At present, central banks from approximately 30 countries collect and share with the BIS comprehensive statistics on the cross-border and foreign currency positions of banks in their country on a locational and consolidated basis. Following up on a report by a working group of the CGFS (see above), the BIS chaired a working group of statistical experts charged with drafting an implementation plan for the report's recommendations. The proposed improvements are expected to be put in place by the end of 2004.

The Bank coordinated a further triennial survey on foreign exchange and derivatives markets in approximately 50 financial centres in April 2001. The results will become available in autumn 2001. The BIS continued to cooperate in the joint BIS-IMF-OECD-World Bank statistics on external debt, an exercise which provides quarterly data on the main components of external debt of emerging market countries. In this context a study was carried out to identify major gaps between the external debt statistics available on a creditor basis and those published by the emerging market economies themselves on the basis of debtor data. Finally, the BIS continued to explore with the IMF and the ECB the possibility of creating a global database on individual securities issues in order to improve securities and balance of payments statistics globally and to enhance the analysis of international financial market developments.

The BIS continued to chair the Group of Experts on Monetary and Economic Data Bank Questions and to provide data bank services to participating central banks (currently 23) for the electronic exchange of a broad set of economic, monetary and financial statistics. A significant number of central banks from emerging markets were invited and agreed to join the exercise. The BIS Data Bank platform consists of a comprehensive code structure for statistical time series within a commonly agreed framework; a set of technical procedures to transmit this information to and from a central hub at the BIS using web-based technologies; and an international exchange standard (GESMES/CB – Generic Statistical Message for Central Banks) jointly developed by the BIS, central banks and other international institutions. In this last regard, following a request from the Data Bank Experts, the BIS started to explore with other institutions, such as the IMF, OECD, ESCB and Eurostat, how international cooperation on standards for electronic data exchange could be enhanced in order to rationalise statistical reporting.

Cooperation with regional central bank groupings

The BIS continued to support central bank cooperation in various parts of the world, either within existing regional political associations or within specialised central banking organisations. Last year, active cooperation was maintained with CEMLA (Centro de Estudios Monetarios Latinoamericanos), EMEAP (Executives' Meeting of East Asia-Pacific Central Banks), SADC (Southern African Development Community), MEFMI (Macroeconomic and Financial Management Institute of Eastern and Southern Africa) and SEACEN (South-East Asian Central Banks). Cooperation took the form of participation in meetings arranged by these groups and organisation of occasional joint meetings or workshops. For instance, following a conference on central bank websites at the BIS in June last year, a number of central banking groups organised a similar event for their respective areas with BIS support.

Coordination of technical assistance and training

As in previous years, the BIS assisted the central banks of over 20 industrialised countries in the coordination of their technical assistance and training for central banks of central and eastern Europe, the Commonwealth of Independent States and some Asian economies in transition. This coordination takes place through the organisation of regular meetings that bring together officials of the donor and recipient central banks concerned, as well as the IMF and other international organisations. One of the meetings held last year was hosted by the Joint Vienna Institute. In close cooperation with the FSI and the Basel-based committees, the BIS continued to support the Institute by staging a number of seminars.

Group of Computer Experts

In June 2000 the Group of Computer Experts held a special joint workshop in Hong Kong with IT managers from Asian central banks on the topic of strategic IT challenges for G10 and Asian central banks. Themes of presentations and discussions included the use of the internet and internet technologies by central banks, document management, sourcing strategies for skills and services, and IT infrastructure for payment systems.

Developments at central banks with respect to IT strategy, organisation, infrastructure and projects – many with an e-business focus – were discussed at regular meetings during the year. IT security, in particular internet access security and the implementation of protective measures using public key infrastructure technology, continued to be an important topic for both the Group and its Working Party on Security Issues.

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 2000 the Bundesschuldenverwaltung (BSV – German Federal Debt Administration) had arranged for payment of a total amount of approximately DM 9.1 million in respect of redemption and interest. Redemption values and other details were published by the BSV 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. Operations of the Banking Department

At 31 March 2001 the Balance Sheet stood at 76,054 million gold francs, a record for the end of a financial year and a 1.6% increase over the total of 74,836 million registered 12 months previously. In fact, the size of the Balance Sheet would have been larger still (by some 3.2 billion gold francs) were it not for the negative impact of the overall appreciation of the US dollar between the beginning and the end of the financial year.

As in previous years, the BIS Balance Sheet expanded significantly in the late autumn to peak at the end of December before shrinking again in the first quarter of 2001. This trend, however, was markedly less pronounced than in the two preceding years. A Balance Sheet maximum of 80,673 million gold francs was reached at the end of December, well below the previous financial year's high of 87,049 million registered at the end of December 1999.

As noted above, the BIS opened a new Regional Treasury dealing room in its Asian Office located in Hong Kong SAR last October. This Regional Treasury has no legal personality of its own and all transactions dealt through it are therefore concluded in the name of the BIS in Basel.

Liabilities

On 31 March 2001 borrowed funds in gold and currencies (excluding repurchase agreements) totalled 70,117 million gold francs, compared with 68,724 million at the end of the previous financial year. Gold deposits grew by a modest 22 million gold francs to reach 2,842 million, representing 4.1% of total borrowed funds (unchanged from a year earlier). Currency deposits, on the other hand, increased by 1,371 million gold francs (excluding repurchase agreements) over the financial year. Overall, the daily average volume of borrowed currencies was 2.5% higher than in the previous financial year, reflecting to some extent more competitive pricing and more active marketing of BIS financial products.

The increase in borrowed currencies during the past financial year mainly arose from growth in US dollar placements and to a lesser extent in euro-denominated placements. The US dollar constituted 66.9% of total borrowed funds in currencies on 31 March 2001, compared with 65.3% a year earlier. The share of the euro also increased over the same period from 19.4% to 20.7% of borrowed funds in currencies.

Deposits by central banks and other monetary authorities rose from 60,667 million to 64,687 million gold francs, representing 96.2% of total borrowed funds in currencies (excluding repurchase agreements) at end-March 2001 against 92.1% the previous year. Funds placed by other depositors (mainly international institutions) amounted to 3,578 million gold francs, compared with 5,236 million on 31 March 2000. As BIS customers seek increasingly to enhance the yield on their investments, there has been a clear trend towards a lengthening of the average maturity of customer placements with the BIS.

Assets

Funds deposited with the BIS are placed in the market, for the most part in the form of investments with top-quality commercial banks of international standing and purchases of short-term government securities. Since the Regional Treasury opened in Hong Kong last autumn, there has been a significant increase in BIS business with banks and investment houses in Asia. The BIS also grants short-term credits to central banks, usually on a collateralised basis. Credit exposure, maturity transformation and market risk arising from the Bank's financial operations in Basel and Hong Kong are rigorously monitored by a separate risk control unit reporting directly to the Deputy General Manager. Particular care is taken to ensure that liquidity is sufficient at all times to respond effectively to unforeseen cash requirements of customers.

Investments in currencies stood at 71,636 million gold francs on 31 March 2001, compared with 71,127 million a year earlier. This total included 210 million gold francs in the form of advances to central banks. The Bank's assets in gold rose slightly from 3,506 million gold francs to 3,521 million over the same period, reflecting an increase 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 by the governments of the major industrial countries, though there has been some diversification into top-rated credit products and securities issued by international institutions.

The BIS also makes use of various derivative instruments with a view to managing its own funds more efficiently and hedging risks on its borrowed funds (see note 10(a) to the Accounts). In particular, the trend towards longer customer maturities referred to above has prompted the Bank to increase its use of futures and interest rate swaps.

6. Net profits and their distribution

The accounts for the 71st financial year which ended on 31 March 2001 show a net profit of 271.7 million gold francs, compared with 307.8 million gold francs for the preceding financial year. Interest income from own funds investments rose, since interest yields were on average higher than in the previous year. Underlying income from borrowed funds operations was similar to last year. However, substantial book losses were realised as central bank customers actively managed their portfolios of BIS instruments when interest rates fell during the last few months of the financial year, and the market values of their claims on the BIS increased. In economic terms, these losses are offset by unrealised gains on the Bank's borrowed funds assets and off-balance sheet operations, which, in conformity with the Bank's accounting policies, are not recognised in the Profit and Loss Account. These losses will be reversed during the original period to maturity of the claims concerned. Finally, the Board of Directors decided that, as the current level of the provision for banking risks and other eventualities was sufficient, a transfer to that provision was not necessary.

This year's result is shown after deduction of 67.0 million gold francs in respect of costs of administration, including depreciation, compared with the previous year's figure of 68.8 million gold francs, a decrease of 3%. In terms of Swiss francs, the currency in which most of the Bank's expenditure is incurred, costs of administration increased by 6%. Within this category, depreciation rose by 18% in Swiss francs (and by 8% in gold francs) as a result of the Bank's continuing investment in IT and other equipment, which included improved banking IT systems and equipping the new dealing room in Hong Kong.

On the basis of Article 51 of the Statutes, it is proposed that the net profit of 271.7 million gold francs be applied by the General Meeting in the following manner:

(i) 48.6 million gold francs in payment of a dividend of 360 Swiss francs per share. It should be noted that the dividend will be paid on 452,113 shares. The number of issued and paid-up shares before the repurchase of shares is 529,165. Of these shares, 77,052 are held in treasury, comprising 74,952 shares repurchased from former private shareholders and central banks and 2,100 other shares. No dividend will be paid on treasury shares;

(ii) 44.6 million gold francs to be transferred to the general reserve fund;

(iii) 3.0 million gold francs to be transferred to the special dividend reserve fund; and

(iv) 175.5 million 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 2001 to the shareholders whose names are contained in the Bank's share register on 20 June 2001.

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 2001 and of the results of its operations for the year then ended. Their report is to be found immediately following the accounts.

7. Amendment of the Bank's Statutes

Withdrawal of privately held shares

As announced on 11 September 2000, an Extraordinary General Meeting (EGM) of the Bank was held on 8 January 2001 and decided, on the recommendation of the Board of Directors, to restrict for the future the right to hold shares in the BIS exclusively to central banks. Accordingly, the EGM approved an amendment to the Bank's Statutes which effected a mandatory repurchase by the Bank of all BIS shares held by private shareholders, against payment of compensation of 16,000 Swiss francs for each share (equivalent to some $9,950 at the US dollar/Swiss franc exchange rate on 8 January 2001).

The amount of compensation of 16,000 Swiss francs per share payable to private shareholders represented a premium of 95–155% over the closing prices on the last trading day in September 2000 prior to the announcement of the proposed transaction, when the American, Belgian and French shares subject to the mandatory repurchase traded at 8,195, 7,800 and 6,273 Swiss francs respectively. This amount was determined by the Board and subsequently established by the EGM on the basis of the valuation and recommendations of the international investment bank J P Morgan & Cie, which carried out a multi-criteria valuation analysis. Separately, the accounting firm Barbier Frinault & Associés (Arthur Andersen Group) conducted an independent analysis and delivered an opinion confirming the fairness of the proposed compensation.

The reasons which led the Bank to proceed with the mandatory repurchase were essentially twofold. First, the existence of a small number of private shareholders, whose interest was primarily financial, had become increasingly inconsistent with the public international role of the BIS and its future development. The fundamental role of the BIS is to promote cooperation among central banks and thus to assist in stabilising the global financial system; it is not a prime objective of the BIS to maximise the return on shareholders' financial investment. Second, the markets for BIS shares were hampered by imperfections which could not be corrected: the shares in private hands represented three non-fungible share issues (the whole of the American issue and portions of the French and Belgian issues) which were thinly traded on two stock exchanges, and the Statutes of the Bank required cumbersome procedures for the transfer of shares.

In order to effect the mandatory repurchase of all privately held shares, Articles 6, 12 and 15 to 18 of the Statutes of the Bank were amended to restrict the right to hold shares in the BIS exclusively to central banks. In addition, a new Article 18(A) was inserted in the Statutes as a transitional rule to provide for the cancellation of the registration of private shareholders in the BIS register and for the payment to them of compensation of 16,000 Swiss francs per share. This new article also refers to the redistribution among shareholding central banks of shares held by the BIS, in a manner to be subsequently determined by the Board. In conjunction with an option given at the same time to central banks owning BIS shares other than those of their national issue to sell such shares to the Bank for the same amount of 16,000 Swiss francs per share, the Bank has repurchased 74,952 of its own shares.

The statutory amendments made to complete the transaction are based on the special international rules applicable to the BIS as an international organisation (including the Bank's Constituent Charter and its Statutes). In particular, pursuant to Article 54 of the Statutes of the Bank, the Arbitral Tribunal provided for by the Hague Agreement has sole jurisdiction to hear disputes arising from the transaction with regard to the interpretation or application of the Statutes. A small number of former private shareholders are contesting the amount of compensation to be paid and the valuation methods chosen and have filed complaints against the Bank either before the Arbitral Tribunal or in national courts. The BIS has requested that all such claims be referred to the Arbitral Tribunal in The Hague.

Other matters

In addition to the statutory amendments relating to the withdrawal of privately held shares of the Bank, the EGM approved changes to Article 40 of the Statutes concerning the English and German language title of the Deputy General Manager and to Article 45 of the Statutes regarding the timing of Annual General Meetings.

8. Changes in the Board of Directors

At its meeting in June 2000, the Board re-elected Nout H E M Wellink, President of the Netherlands Bank, as a member of the Board for a further term of three years, ending on 30 June 2003.

In September 2000, Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System, reappointed William J McDonough as a member of the Board of Directors for another period of three years, expiring on 12 September 2003. At the same meeting, the Board re-elected Masaru Hayami, Governor of the Bank of Japan, as a member of the Board, also for a further period of three years, ending on 12 September 2003.

Jean-Claude Trichet, Governor of the Bank of France, renewed the appointment of Hervé Hannoun as a member of the Board of Directors in November 2000 for a further term of three years, expiring on 27 November 2003.

At the end of December 2000, Hans Meyer retired from his position as President of the Swiss National Bank and vacated his seat on the Board. From 1 January 2001, the Board elected Jean-Pierre Roth, the successor to Mr Meyer at the Swiss National Bank, as a member of the Board for the unexpired period of Mr Meyer's term of office, ie until end-March 2001. In March 2001, Mr Roth was re-elected until 31 March 2004.

In September 2000, Gordon Thiessen, Governor of the Bank of Canada, was re-elected as a member of the Board until 12 September 2003. However, since Mr Thiessen retired and vacated his seat on the Board at the end of January 2001, the Board elected his successor as Governor of the Bank of Canada, David Dodge, as a member of the Board for the unexpired period of Mr Thiessen's term of office until 12 September 2003.

Antonio Fazio, Governor of the Bank of Italy, appointed Bruno Bianchi from July 2000 as his first Alternate to succeed Carlo Santini. From October 2000, Guy Quaden, Governor of the National Bank of Belgium, nominated Peter Praet to replace Jean-Jacques Rey as his first Alternate.

As regards senior officials of the Bank, Guy Noppen and Marten de Boer retired from their position as Manager at the end of September 2000 and the end of March 2001, respectively. Peter Dittus was appointed Deputy Secretary General from 1 October 2000.

Balance Sheet and Profit and Loss Account

at 31 March 2001

Balance Sheet at 31 March 2001

(in millions of gold francs – see note 2(a) to the Accounts)

2000	Assets	2001
	Gold	
2 265.4	Held in bars	*2 195.3*
1 240.4	Time deposits and advances	*1 325.8*
3 505.8		3 521.1
11.4	Cash on hand and on sight account with banks	20.3
7 853.9	Treasury bills	4 597.8
	Time deposits and advances in currencies	
32 401.0	Not exceeding 3 months	*27 894.8*
9 452.9	Over 3 months	*16 901.6*
41 853.9		44 796.4
	Securities purchased under resale agreements	
1 268.1	Not exceeding 3 months	3 882.0
	Government and other securities at term	
4 295.8	Not exceeding 3 months	*4 490.3*
15 844.1	Over 3 months	*13 849.2*
20 139.9		18 339.5
120.7	Land, buildings and equipment	113.2
82.0	Miscellaneous	783.7
74 835.7		76 054.0

The classification at 31 March 2000 of some assets and liabilities with an early repayment facility has been amended to reflect their full contractual term to maturity.

After allocation of the year's net profit		Before allocation of the year's net profit	After allocation of the year's net profit
2000	Liabilities	2001	
330.7	Capital	330.7	330.7
2 911.6	Reserves	2 911.6	3 134.7
	Shares held in treasury	(384.0)	(384.0)
191.9	Valuation difference account	56.0	56.0
	Deposits (gold)		
2 240.3	Sight	*2 178.1*	*2 178.1*
197.5	Not exceeding 3 months	*282.5*	*282.5*
382.4	Over 3 months	*381.7*	*381.7*
2 820.2		2 842.3	2 842.3
	Deposits (currencies)		
3 423.2	Sight	*2 690.5*	*2 690.5*
39 244.7	Not exceeding 3 months	*28 204.1*	*28 204.1*
23 235.8	Over 3 months	*36 380.2*	*36 380.2*
65 903.7		67 274.8	67 274.8
	Securities sold under repurchase agreements		
103.0	Not exceeding 3 months	990.6	990.6
2 519.9	Miscellaneous	1 760.3	1 760.3
	Profit and Loss Account	271.7	
54.7	Dividend payable on 1 July		48.6
74 835.7		76 054.0	76 054.0

Profit and Loss Account

for the financial year ended 31 March 2001
(in millions of gold francs)

	2000	2001
Interest and discount, and other operating income	4 222.4	5 532.0
Less: interest and discount expense	3 845.8	5 193.3
Net interest and other operating income	376.6	338.7
Less: costs of administration		
Board of Directors	*1.2*	*1.1*
Management and staff	*40.6*	*39.3*
Office and other expenses	*19.4*	*18.5*
Costs of administration before depreciation	61.2	58.9
Depreciation	*7.6*	*8.1*
	68.8	67.0
Net profit for the financial year	307.8	271.7

The Board of Directors recommends to the Annual General Meeting that the net profit for the year ended 31 March 2001 be allocated in accordance with Article 51 of the Statutes as follows:

	2000	2001
Dividend: 360 Swiss francs per share on 452 113 shares		*48.6*
340 Swiss francs per share on 517 165 shares	*54.5*	
on 12 000 newly issued shares (pro rata as from the value date of share subscription)	*0.2*	
	54.7	48.6
	253.1	223.1
Transfer to general reserve fund	50.6	44.6
	202.5	178.5
Transfer to special dividend reserve fund	3.0	3.0
	199.5	175.5
Transfer to free reserve fund	199.5	175.5
	–	–

Movements in the Bank's capital and reserves

during the financial year ended 31 March 2001
(in millions of gold francs)

I. Capital

	Number of shares	Gold francs (millions)
Shares of 2 500 gold francs, of which 25% has been paid up:		
Balance at 31 March 2000 as per Balance Sheet	529 165	330.7
Balance at 31 March 2001 as per Balance Sheet	529 165	330.7

Further information is given in note 7 to the Accounts.

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 2000 after allocation of net profit for the financial year 1999/2000	33.1	1 259.1	68.5	1 550.9	2 911.6
Add: allocation of net profit for the financial year 2000/01	–	44.6	3.0	175.5	223.1
Balances at 31 March 2001 as per Balance Sheet	33.1	1 303.7	71.5	1 726.4	3 134.7

III. Capital and reserve funds at 31 March 2001 (after allocation) were represented by:

	Capital	Reserve funds	Total of capital and reserves
Net assets in			
Gold	330.7	331.0	661.7
Currencies	–	2 803.7	2 803.7
Balances at 31 March 2001 as per Balance Sheet	330.7	3 134.7	3 465.4

Notes to the Accounts

for the financial year ended 31 March 2001
(in millions of gold francs)

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 2000/01 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 cost of the Bank's land, buildings and equipment is capitalised. The cost is depreciated on a straight line basis over the estimated useful lives of the assets concerned, 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

Each year the Board of Directors reviews the level of, and if necessary sets aside an amount to, the above provision. The provision is incorporated in miscellaneous liabilities.

3. Gold holdings

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

Assets	*2000*	2001
Gold bars held at central banks	*2 265.4*	2 195.3
Gold time deposits:		
Not exceeding 3 months	*261.4*	372.0
Over 3 months	*979.0*	953.8
	3 505.8	3 521.1

The Bank's own gold holdings at 31 March 2001 amounted to GF 661.7 million, equivalent to 192 tonnes of fine gold (2000: GF 661.7 million; 192 tonnes).

4. Treasury bills

The Bank's holdings were as follows:

	2000	2001
Book value	*7 853.9*	4 597.8

The market value of treasury bills at 31 March 2001 was GF 4 601.1 million (2000: GF 7 854.1 million).

5. Government and other securities at term

The Bank's holdings were as follows:

	2000	2001
Book value	*20 139.9*	18 339.5

The market value of government and other securities at term at 31 March 2001 was GF 18 558.4 million (2000: GF 20 120.0 million).

6. Land, buildings and equipment

	Land & buildings	IT & other equipment	Total
Cost:			
Opening balance at 1 April 2000	129.6	48.2	177.8
Capital expenditure	0.9	4.1	5.0
Disposals and retirements		(18.6)	(18.6)
Exchange adjustments	(4.7)	(1.8)	(6.5)
Cost at 31 March 2001	125.8	31.9	157.7
Depreciation:			
Accumulated depreciation at 1 April 2000	28.3	28.8	57.1
Depreciation charge for the current year	2.2	5.9	8.1
Disposals and retirements		(18.6)	(18.6)
Exchange adjustments	(1.0)	(1.1)	(2.1)
Accumulated depreciation at 31 March 2001	29.5	15.0	44.5
Net book value at 31 March 2001	96.3	16.9	113.2

The cost of the Bank's land at 31 March 2001 was GF 22.9 million (2000: GF 23.8 million).

7. Capital

The Bank's share capital consists of:

	2000	2001
Authorised capital:		
600 000 shares,		
each of 2 500 gold francs	*1 500.0*	1 500.0
Issued capital: 529 165 shares	*1 322.9*	1 322.9
of which 25% paid up	*330.7*	330.7

(a) The Extraordinary General Meeting on 8 January 2001 amended the Bank's Statutes to restrict the right to hold shares in the BIS exclusively to central banks, thereby effecting a mandatory repurchase of 72 648 shares from the American, Belgian and French issues held by private (ie non-central bank) shareholders against compensation of 16 000 Swiss francs per share. As regards shares in these issues held by central banks other than those of the three countries of issue, the Bank repurchased at the same price 2 304 shares, of which the repurchase of 500 shares was completed after 31 March 2001. The Board will, in due course, redistribute these shares to the Bank's existing central bank shareholders in a manner which it considers appropriate. The voting rights attached to these shares remain unaffected; they continue to be exercisable by the American, Belgian and French central banks, respectively.

(b) The cost of repurchasing the total of 74 952 shares above, which amounts to GF 384.0 million, is shown as a negative liability under the caption "Shares held in treasury" in the Bank's Balance Sheet.

(c) The number of outstanding shares on which the dividend for the financial year 2000/01 is payable is as follows:

Issued capital	529 165
Less: shares held in treasury	
From private shareholders and central banks	74 952
Others	2 100
Total outstanding shares eligible for dividend	452 113

8. Reserves

The Bank's reserves consist of:

	2000	2001
Legal reserve fund	*33.1*	33.1
General reserve fund	*1 259.1*	1 303.7
Special dividend reserve fund	*68.5*	71.5
Free reserve fund	*1 550.9*	1 726.4
	2 911.6	3 134.7

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

9. Deposits

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

	2000	2001
Central banks		
Sight	*3 351.8*	2 293.7
Not exceeding 3 months	*50 119.9*	27 176.4
Over 3 months	*7 195.8*	35 216.9
Other depositors		
Sight	*71.4*	396.8
Not exceeding 3 months	*5 164.8*	1 027.7
Over 3 months	*0.0*	1 163.3
	65 903.7	67 274.8

10. 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

	2000	2001
Exchange rate contracts:		
Foreign exchange swaps and forwards	*9 291.3*	11 542.4
Currency swaps	*2 259.3*	1 776.1
Interest rate contracts:		
Interest rate swaps	*9 842.5*	41 012.6
Forward rate agreements and futures	*15 629.6*	21 864.3

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 2001 was GF 1 476.1 million (2000: GF 354.4 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.

	2000	2001
Nominal value of securities held in safe custody	*7 093.0*	8 400.5
Gold held under earmark	*666.1*	700.3

(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 2001 the market value of the net assets of the Pension Fund was GF 256.3 million (2000: GF 266.7 million), representing a coverage ratio of 117% (2000: 125%) based on the latest annual actuarial value of the fund's obligations as at 30 September 2000. The market value of the net assets of the Savings Fund was GF 23.8 million at 31 March 2001 (2000: GF 23.8 million), representing a coverage ratio of 102% (2000: 105%) with reference to the liabilities of the scheme at that date. Should the ratio remain unchanged at 30 September 2001, the next financial year-end of the Savings Fund, the Bank would be required to pay an additional contribution of GF 0.7 million into the Savings Fund. The most recent annual accounts of the Pension and Savings Funds relate to the year ended 30 September 2000.

11. Contingent liabilities

Certain former private shareholders have expressed their dissatisfaction with the amount of compensation being paid to them by the Bank in connection with the mandatory repurchase of the shares not held by central banks. Separate actions have been initiated in the US Federal Courts and a proceeding has been initiated before the Arbitral Tribunal in The Hague. The Bank has declared that should the Arbitral Tribunal increase the compensation, such increased amount would apply in respect of all repurchased shares.

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 2001 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, 2 May 2001

Five-year summary of the Balance Sheet

(in millions of gold francs)

Financial year ended 31 March	1997	1998	1999	2000	2001
Gold					
Held in bars	*3 547.3*	*3 037.1*	*2 801.5*	*2 265.4*	*2 195.3*
Time deposits and advances	*956.7*	*1 122.4*	*1 077.2*	*1 240.4*	*1 325.8*
	4 504.0	4 159.5	3 878.7	3 505.8	3 521.1
Cash on hand and on sight account with banks	384.4	7.8	8.3	11.4	20.3
Treasury bills	2 813.4	1 863.9	7 314.0	7 853.9	4 597.8
Time deposits and advances in currencies	42 355.1	34 862.2	32 423.0	41 853.9	44 796.4
Securities purchased under resale agreements	884.2	2 781.0	276.0	1 268.1	3 882.0
Government and other securities at term	15 651.1	18 517.1	22 167.9	20 139.9	18 339.5
Land, buildings and equipment	–	–	124.7	120.7	113.2
Miscellaneous assets	200.8	258.7	44.5	82.0	783.7
Total assets	66 793.0	62 450.2	66 237.1	74 835.7	76 054.0
Paid-up capital	323.2	323.2	323.2	330.7	330.7
Reserves *(after allocation of the net profit for the year)*					
Legal reserve fund	*32.3*	*32.3*	*32.3*	*33.1*	*33.1*
General reserve fund	*974.9*	*1 016.3*	*1 156.4*	*1 259.1*	*1 303.7*
Special dividend reserve fund	*59.5*	*62.5*	*65.5*	*68.5*	*71.5*
Free reserve fund	*995.1*	*1 157.4*	*1 351.4*	*1 550.9*	*1 726.4*
	2 061.8	2 268.5	2 605.6	2 911.6	3 134.7
Shares held in treasury					(384.0)
Valuation difference account	351.1	247.2	265.4	191.9	56.0
Deposits					
Gold	*3 836.4*	*3 473.7*	*3 192.6*	*2 820.2*	*2 842.3*
Currencies	*57 585.6*	*54 023.6*	*57 705.8*	*65 903.7*	*67 274.8*
	61 422.0	57 497.3	60 898.4	68 723.9	70 117.1
Securities sold under repurchase agreements	674.8	30.7	121.5	103.0	990.6
Staff pension scheme	252.6	257.0	–	–	–
Miscellaneous liabilities	1 658.7	1 773.7	1 965.6	2 519.9	1 760.3
Dividend	48.8	52.6	57.4	54.7	48.6
Total liabilities	66 793.0	62 450.2	66 237.1	74 835.7	76 054.0

Five-year summary of the Profit and Loss Account

(in millions of gold francs)

Financial year ended 31 March	1997	1998	1999	2000	2001
Net interest and other operating income	263.8	314.9	370.4	376.6	338.7
Less: costs of administration					
Board of Directors	*1.3*	*1.3*	*1.3*	*1.2*	*1.1*
Management and staff	*42.9*	*39.4*	*40.9*	*40.6*	*39.3*
Office and other expenses	*16.3*	*15.0*	*18.6*	*19.4*	*18.5*
Costs of administration before depreciation	60.5	55.7	60.8	61.2	58.9
Depreciation	–	–	*6.0*	*7.6*	*8.1*
	60.5	55.7	66.8	68.8	67.0
Net operating surplus	203.3	259.2	303.6	307.8	271.7
Less: amounts transferred to					
Provision for exceptional costs of administration	*3.0*	–	–	–	–
Provision for modernisation of premises and renewal of equipment	*6.0*	–	–	–	–
	9.0	–	–	–	–
Net profit for the financial year	194.3	259.2	303.6	307.8	271.7
Dividend	48.8	52.6	57.4	54.7	48.6
	145.5	206.6	246.2	253.1	223.1
Transfer to general reserve fund	41.0	41.3	49.2	50.6	44.6
	104.5	165.3	197.0	202.5	178.5
Transfer to special dividend reserve fund	3.0	3.0	3.0	3.0	3.0
	101.5	162.3	194.0	199.5	175.5
Transfer to free reserve fund	101.5	162.3	194.0	199.5	175.5
	–	–	–	–	–

Board of Directors

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

Lord Kingsdown, London
Vice-Chairman

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

Alternates

Bruno Bianchi or Stefano Lo Faso, Rome
Roger W Ferguson or Karen H Johnson, Washington
Jean-Pierre Patat or Marc-Olivier Strauss-Kahn, Paris
Ian Plenderleith or Clifford Smout, London
Peter Praet or Jan Smets, Brussels
Jürgen Stark or Stefan Schönberg, Frankfurt am Main

Sub-Committees of the Board of Directors

Consultative Committee
Audit Committee

both chaired by Lord Kingsdown, London

Senior Officials of the Bank

Andrew Crockett	General Manager
André Icard	Deputy 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
Renato Filosa	Manager, Monetary and Economic Department
Mario Giovanoli	General Counsel, Manager
Günter Pleines	Deputy Head of Banking Department
Peter Dittus	Deputy Secretary General
Josef Tošovský	Chairman, Financial Stability Institute

Printed in Switzerland   Werner Druck AG, Basel