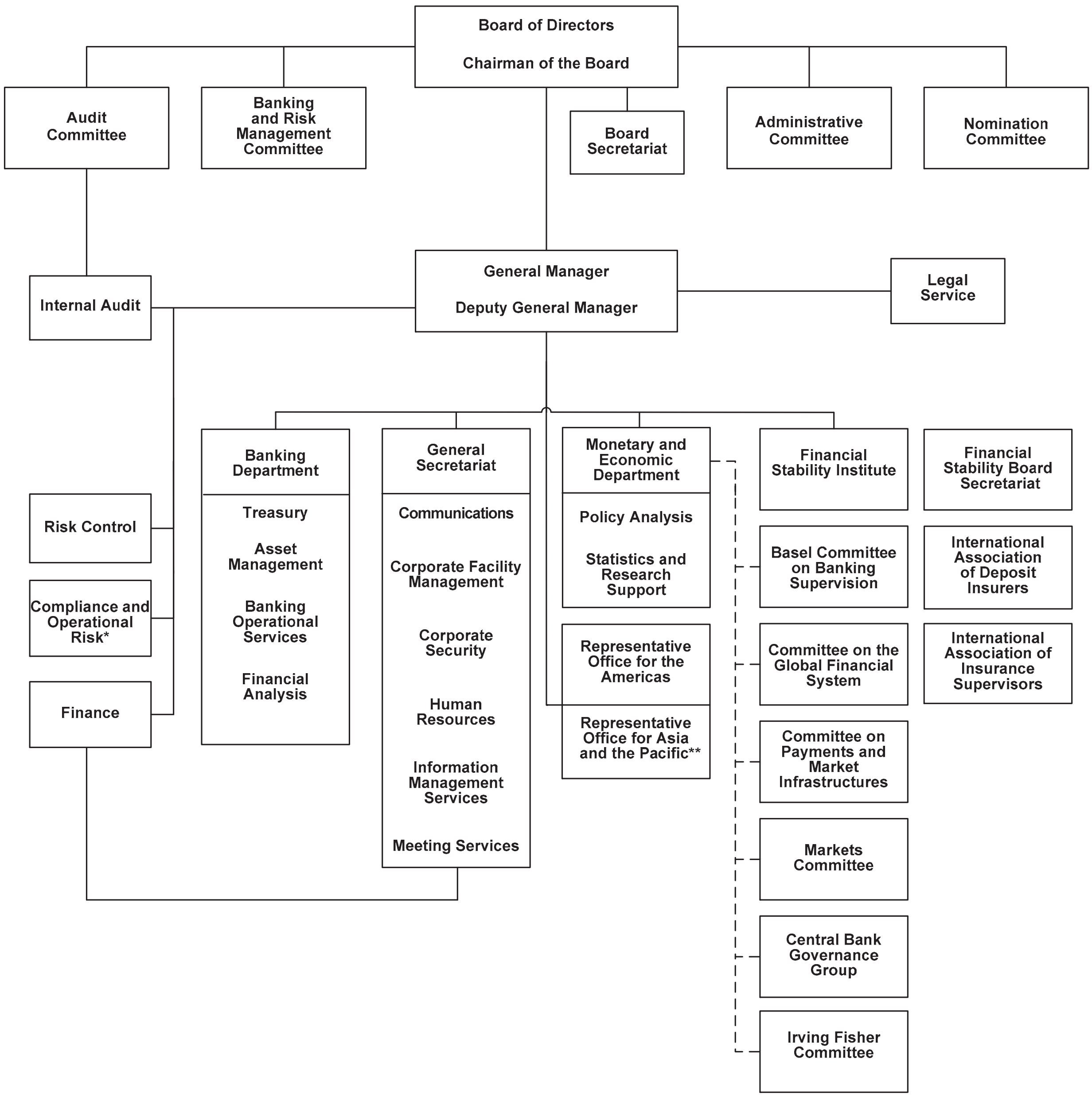
Organisation of the BIS as at 31 March 2016



* Direct access to the Audit Committee on compliance matters.
** Provides banking services to the region's monetary authorities.

The BIS: mission, activities, governance and financial results

The Bank for International Settlements (BIS) serves central banks in their pursuit of monetary and financial stability, fosters international cooperation in those areas and acts as a bank for central banks. In outline, the BIS pursues this mission by:

- facilitating dialogue and collaboration among central banks and other authorities that are responsible for promoting financial stability;
- conducting research on policy issues confronting central banks and financial supervisory authorities;
- acting as a prime counterparty for central banks in their financial transactions; and
- serving as an agent or trustee in connection with international financial operations.

The BIS has its head office in Basel, Switzerland, and representative offices in the Hong Kong Special Administrative Region of the People's Republic of China (Hong Kong SAR) and in Mexico City.

In the light of the above aims, this chapter reviews the BIS's activities, and those of the groups it hosts, for the financial year 2015/16; describes the institutional framework that supports their work; and presents the year's financial results.

The meetings programmes and the Basel Process

The BIS promotes international cooperation among monetary authorities and financial supervisory officials through its meetings programmes and through the Basel Process – hosting and supporting international groups pursuing global financial stability (such as the Basel Committee on Banking Supervision and the Financial Stability Board) and facilitating their interaction.

Bimonthly meetings and other regular consultations

Governors and other senior officials of BIS member central banks hold bimonthly meetings, normally in Basel, to discuss current developments and the outlook for the world economy and financial markets. They also exchange views and experiences on issues of interest to central banks.

Global Economy Meeting

The Global Economy Meeting (GEM) comprises the Governors of 30 BIS member central banks in major advanced and emerging market economies that account for about four fifths of global GDP. The Governors of another 19 central banks attend the GEM as observers.[1] Chaired by Agustín Carstens, Governor of the Bank

[1] The members of the GEM are from the central banks of Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Malaysia, Mexico, the Netherlands, Poland, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States and also the ECB. The observers are from the central banks of Algeria, Austria, Chile, Colombia, the Czech Republic, Denmark, Finland, Greece, Hungary, Ireland, Israel, Luxembourg, New Zealand, Norway, Peru, the Philippines, Portugal, Romania and the United Arab Emirates.

of Mexico, the GEM has two main roles: (i) monitoring and assessing developments, risks and opportunities in the world economy and the global financial system; and (ii) providing guidance to three BIS-based central bank committees – the Committee on the Global Financial System, the Committee on Payments and Market Infrastructures and the Markets Committee.

The GEM's economic discussions focus on current macroeconomic and financial developments in major advanced and emerging market economies. Specific topics discussed by the GEM over the past year included: the appropriate mix of monetary, fiscal and structural policies at the current juncture; the natural rate of interest; implications of recent large movements in exchange rates; risks to real and financial globalisation; and changing drivers of global growth.

Economic Consultative Committee

The Economic Consultative Committee (ECC) is an 18-member group that supports the work of the GEM. Also led by the GEM Chairman and comprising all Governors participating in the BIS Board meeting and the BIS General Manager, the ECC conducts analyses and prepares proposals for the GEM's consideration. In addition, the ECC Chairman makes recommendations to the GEM on the appointment of Chairs of the three central bank committees mentioned above and on the composition and organisation of those committees.

All Governors' Meeting

The All Governors' Meeting comprises the Governors of the 60 BIS member central banks and is chaired by the Chairman of the Board. It convenes to discuss selected topics of general interest to its members. In 2015/16, the topics discussed were inequality and monetary policy; whether innovation has peaked; central clearing – trends and current issues; issues for central banks arising from financial inclusion and education; liquidity assistance by central banks; and climate change and the financial system.

By agreement with the GEM and the BIS Board, the All Governors' Meeting is responsible for overseeing the work of two other groups that have a broader network or membership than the GEM. These are the Central Bank Governance Group, which also meets during the bimonthly meetings, and the Irving Fisher Committee on Central Bank Statistics.

Central Bank Governors and Heads of Supervision

The Group of Central Bank Governors and Heads of Supervision (GHOS) is a high-level forum responsible for international collaboration on banking supervision. Chaired by Mario Draghi, President of the ECB, the GHOS meets periodically to decide on global banking regulations and oversee the work of the Basel Committee on Banking Supervision (see page 138).

Other meetings of Governors

The central bank Governors of major emerging market economies (EMEs) meet three times a year – during the January, May and September bimonthly meetings – to discuss issues of importance to their economies. The topics discussed in 2015/16 included global asset management companies and emerging market asset classes; international currencies and the international monetary system; and the implications for EMEs of exchange rate and commodity price developments.

Regular meetings were also held for the Governors of central banks in small open economies.

Other consultations

In addition, the Bank regularly organises various meetings that bring together senior central bank officials and, occasionally, representatives from other financial authorities, the private financial sector and the academic community to discuss topics of shared interest.

During the past year, these events included:

- the annual meetings of the working parties on monetary policy, held in Basel but also hosted at a regional level by central banks in Asia, central and eastern Europe, and Latin America;
- a meeting of Deputy Governors of emerging market economies on inflation mechanisms; and
- the high-level meetings organised by the Financial Stability Institute in various regions of the world for Governors and Deputy Governors and heads of supervisory authorities.

The Basel Process

The Basel Process refers to the BIS's role in hosting and supporting international groups – six committees and three associations – engaged in standard setting and the pursuit of financial stability. Co-location at the BIS facilitates communication and collaboration among these groups as well as their interaction with central bank Governors and other senior officials in the context of the BIS's regular meetings programme. The BIS also supports the work of these committees and associations with its expertise in economic research and statistics and its practical experience in banking.

The hosted committees, whose agendas are guided by various sets of central banks and supervisory authorities, are as follows:

- the Basel Committee on Banking Supervision (BCBS): develops global regulatory standards for banks and seeks to strengthen micro- and macroprudential supervision;
- the Committee on the Global Financial System (CGFS): monitors and analyses issues relating to financial markets and systems;
- the Committee on Payments and Market Infrastructures (CPMI): analyses and sets standards for payment, clearing and settlement infrastructures;
- the Markets Committee: monitors developments in financial markets and their implications for central bank operations;
- the Central Bank Governance Group: examines issues related to the design and operation of central banks; and
- the Irving Fisher Committee on Central Bank Statistics (IFC): addresses statistical issues relating to economic, monetary and financial stability.

The hosted associations are as follows:

- the Financial Stability Board (FSB): an association including finance ministries, central banks and other financial authorities in 24 countries; coordinates at the international level the work of national authorities and international standard setters and develops policies to enhance financial stability;
- the International Association of Deposit Insurers (IADI): sets global standards for deposit insurance systems and promotes cooperation on deposit insurance and bank resolution arrangements; and
- the International Association of Insurance Supervisors (IAIS): sets standards for the insurance sector to promote globally consistent supervision.

The Bank's own Financial Stability Institute (FSI) facilitates the dissemination of the standard-setting bodies' work to central banks and financial sector supervisory and regulatory agencies through its extensive programme of meetings, seminars and online tutorials.

The Basel Process is based on three key features: synergies of co-location; flexibility and openness in the exchange of information; and support from the BIS's expertise in economics, statistics, banking and regulation.

Synergies

The physical proximity of the nine committees and associations at the BIS creates synergies that produce a broad and fruitful exchange of ideas. In addition, each group's costs of operation are reduced through economies of scale.

Flexibility

The limited size of these groups is conducive to flexibility and openness in the exchange of information, thereby facilitating coordination and preventing overlaps and gaps in their work programmes. At the same time, their output is much larger than their size would suggest, as they are able to leverage the expertise of the international community of central bankers, financial regulators and supervisors, and other international and national public authorities.

Support from the BIS's economic expertise and banking experience

The work of the Basel-based committees is informed by the BIS's economic research and statistics and, where appropriate, by the practical experience it gains from the implementation of regulatory standards and financial controls in its banking activities.

Activities of BIS-hosted committees and the FSI

This section reviews the year's principal activities of the six committees hosted by the BIS and of the Financial Stability Institute.

Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision (BCBS) seeks to enhance supervisory cooperation and improve the quality of banking supervision worldwide. Its mandate is to strengthen the regulation, supervision and practices of banks for the purpose of enhancing financial stability. The Committee supports supervisors by providing a forum for exchanging information on national supervisory arrangements, improving the effectiveness of techniques for supervising banks, and setting minimum supervisory and regulatory standards.

The Committee consists of senior representatives of banking supervisory authorities and central banks responsible for banking supervision or financial stability in the Committee's member jurisdictions. It is chaired by Stefan Ingves, Governor of Sveriges Riksbank, and generally meets four times a year. The Committee seeks the endorsement of the Group of Governors and Heads of Supervision (GHOS), its governing body, for its major decisions and its work programme.

Current work programme

During 2015, the Basel Committee made substantial progress towards finalising its post-crisis policy reforms; promoting globally consistent implementation of the agreed regulatory framework; and identifying emerging issues in supervision.

The Committee's 2016 work programme is focused on finalising its financial crisis-related reform agenda and addressing the problem of excessive variability in risk-weighted assets (RWAs). This programme includes the following key elements: (i) the removal of internal model approaches for certain risks (eg the Advanced Measurement Approaches for operational risk); and (ii) imposing additional constraints on the use of internal model approaches for credit risk, in particular through the use of minimum capital requirements based on standardised approaches (ie capital floors). The GHOS will review the Committee's proposals on the risk-weighted framework and the design and calibration of capital floors around the end of 2016.

In January 2016, the GHOS agreed that the leverage ratio should be based on a Tier 1 definition of capital and should comprise a minimum level of 3%. Additional elements may be required for global systemically important banks (G-SIBs). Over the coming year, the Committee will finalise the design and calibration of the leverage ratio for G-SIBs to allow sufficient time for it to be implemented as a Pillar 1 measure by 1 January 2018.

Policy reform

During the year, the Committee consulted on proposed revisions to the standardised approaches for credit risk and operational risk, and finalised the revised market risk framework. Ongoing work on the calibration of the capital floors based on standardised approaches is closely linked to the finalisation of the overall package of reforms to enhance the comparability of risk-weighted assets calculated using internal ratings-based approaches for credit risk.

The Committee finalised or issued for consultation a number of global standards for banks during the year.

Margin requirements for non-centrally cleared derivatives. In March 2015, the Committee and the International Organization of Securities Commissions (IOSCO) revised the framework for margin requirements for non-centrally cleared derivatives.

Interest rate risk in the banking book. In June 2015, the Committee proposed changes to the regulatory capital treatment and supervision of interest rate risk in the banking book (IRRBB). These expand upon, and are intended to ultimately replace, the Basel Committee's 2004 *Principles for the management and supervision of interest rate risk*. The review of the regulatory treatment of IRRBB will, first, help to ensure that banks have appropriate capital to cover potential losses from exposures to changes in interest rates. Second, it is intended to limit capital arbitrage between the trading book and the banking book, as well as between banking book portfolios that are subject to different accounting treatments.

Net Stable Funding Ratio disclosure standards. In June 2015, the Committee finalised the Net Stable Funding Ratio (NSFR) disclosure standards, following the publication of the NSFR standard in October 2014. The disclosure requirements are designed to improve the transparency of regulatory funding requirements, reinforce the *Principles for sound liquidity risk management and supervision*, strengthen market discipline, and reduce market uncertainty as the NSFR standard is implemented. To that end, internationally active banks in all Basel Committee member jurisdictions will be required to publish their NSFRs according to a common template. Banks are required to comply with the disclosure standards from their first reporting period after 1 January 2018.

Review of the Credit Valuation Adjustment risk framework. In July 2015, the Committee issued a consultative paper on its *Review of the Credit Valuation Adjustment risk framework* with the aim of (i) ensuring that all important drivers of credit valuation adjustment (CVA) risk and CVA hedges are covered in the Basel regulatory capital standard; (ii) aligning the capital standard with the fair value measurement of CVA employed under various accounting regimes; and (iii) ensuring consistency with the proposed revisions to the market risk framework under the Basel Committee's *Fundamental review of the trading book*. In parallel, the Committee undertook a quantitative impact study in the second half of 2015 to inform deliberations on the final calibration of the framework.

Criteria for identifying simple, transparent and comparable securitisations. In July 2015, the Committee and IOSCO released their final criteria to assist in the development of simple, transparent and comparable (STC) securitisation structures. In November 2015, the Committee issued for consultation additional criteria for the specific purpose of differentiating the capital treatment of STC securitisations from that of other securitisation transactions. The Committee is proposing to reduce minimum capital requirements for such STC securitisations by reducing the risk weight floor for senior exposures, and by rescaling risk weights for other exposures.

Haircut floors for non-centrally cleared securities financing transactions. In November 2015, the Committee issued a consultative proposal for incorporating the FSB's policy framework for haircut floors for non-centrally cleared securities financing transactions into the Basel III framework. The proposal is designed to create incentives for banks to set their collateral haircuts above the floors rather than hold more capital.

TLAC holdings. In November 2015, the Committee issued for consultation its proposed prudential treatment of banks' investments in Total Loss-Absorbing Capacity (TLAC) instruments, following the FSB's publication of its relevant principles and TLAC term sheet. Applicable to all banks subject to national regulations that are based on the Basel Committee's standards, including non-G-SIBs, the proposed treatment is for banks to deduct from their regulatory capital their holdings of TLAC instruments, subject to thresholds. The aim is to support the TLAC regime by reducing the risk of contagion should a G-SIB enter resolution. The TLAC regime also necessitates changes to Basel III to specify how G-SIBs must take account of the TLAC requirement when calculating their regulatory capital buffers.

Revisions to the Standardised Approach for credit risk. In December 2015, the Committee released a second consultative document on *Revisions to the Standardised Approach for credit risk*, which forms part of the Committee's broader review of the capital framework to balance simplicity and risk sensitivity, and to reduce variability in banks' risk-weighted assets. This revised proposal reintroduces the use of credit ratings, in a non-mechanistic manner, for exposures to banks and corporates; includes alternative approaches for jurisdictions that do not allow the use of external ratings for regulatory purposes; modifies the proposed risk weighting of real estate loans; and includes proposals for exposures to multilateral development banks, retail and defaulted exposures, and off-balance sheet items.

Identification and measurement of step-in risk. In December 2015, the Committee released proposals to identify and measure the risk that a bank will provide financial support to a stressed entity beyond, or in the absence of, its contractual obligations. The proposals fall within the G20 initiative to strengthen the oversight and regulation of the shadow banking system and mitigate the associated risks. The Committee will assess the potential impacts of the proposals, particularly as to whether they adequately capture entities posing potential step-in risk.

Minimum capital requirements for market risk. In January 2016, the Committee issued the revised minimum capital requirements for market risk as agreed by the GHOS. A key component of the Basel Committee's overall reform efforts, the revised framework is designed to ensure that the standardised and internal model approaches to market risk deliver credible capital outcomes and promote consistent implementation of the standards across jurisdictions. The final standard incorporates changes that have been made following two consultative documents published in 2013 and 2014 and several quantitative impact studies.

Frequently asked questions. To promote consistent global implementation of Basel III, the Committee periodically reviews frequently asked questions (FAQs) and publishes answers along with any necessary technical elaboration of the rules text and interpretative guidance. FAQs were published on the Basel III leverage ratio framework in July 2015, on the standardised approach for measuring counterparty credit risk exposures in August, and on the Basel III Countercyclical Capital Buffer in October.

Policy implementation

Implementation of the regulatory framework is a key priority for the Committee. The Regulatory Consistency Assessment Programme (RCAP) monitors the Committee's member jurisdictions' progress on implementation and assesses the consistency and completeness of the adopted standards. The RCAP also facilitates dialogue among Committee members and assists the Committee in developing standards.

During the year, RCAP jurisdictional assessments were conducted for India, Saudi Arabia and South Africa. Reviews are under way to assess the consistency of capital and Liquidity Coverage Ratio (LCR) regulations in Argentina, Indonesia, Korea, Russia and Turkey and of the frameworks for systemically important banks (SIBs) in the member jurisdictions that are home to G-SIBs (China, the European Union, Japan, Switzerland and the United States).

Four years after the RCAP was launched, the Committee is reviewing the programme and considering how its effectiveness could be further enhanced. For example, the Committee has revised its monitoring template and report to take into account new or revised standards. It has also commissioned a study to review the progress of the RCAP and the strategic direction of the Committee's implementation mandate.

In addition, the Committee published several other reports relating to the implementation of the Basel framework.

RCAP-Report on risk-weighted assets for counterparty credit risk (CCR). In October 2015, the Committee published a report on the regulatory consistency of RWAs for counterparty credit risk. The report presents the findings from a hypothetical portfolio exercise to examine variability in banks' modelling of derivatives, and specifically in exposure modelling. The report focuses on the internal models method and the advanced CVA risk capital charge for over-the-counter (OTC) derivative trades. This exercise completes the Committee's review of trading-related internal models.

Basel III Monitoring Report. Published twice a year, the study is based on the rigorous reporting process to periodically review the implications of the Basel III standards. The results of the monitoring exercise assume that the final Basel III package is fully in force and do not take account of any transitional arrangements, such as the gradual phase-in of deductions from regulatory capital.

The March 2016 report shows that all large internationally active banks meet the Basel III risk-based minimum capital requirements as well as the Common Equity Tier 1 (CET1) target level of 7.0% (plus the surcharges for G-SIBs, as applicable). The reports also collect bank data on Basel III's liquidity requirement. Regarding the Liquidity Coverage Ratio (LCR), which came into effect on 1 January 2015, all banks in the LCR sample reported an LCR at or above the 60% minimum requirement that was in place for 2015, while 84% reported a ratio that met or exceeded 100%. As for the Net Stable Funding Ratio (NSFR), which will become a minimum standard by 1 January 2018, 79% of the Group 1 banks and 83% of the Group 2 banks in the NSFR sample reported a ratio that met or exceeded 100%, while 92% of the Group 1 banks and 94% of the Group 2 banks reported an NSFR at or above 90%.[2]

Progress report on adoption of the Basel regulatory framework. This updated progress report provides a high-level view of Basel Committee members' progress in adopting Basel III regulations as of end-September 2015. It focuses on the status of domestic rule-making processes to ensure that the Basel standards are transformed into national law or regulation according to the internationally agreed time frames. The report covers the risk-based capital standards, the liquidity standards (LCR and NSFR), the framework for SIBs, the leverage ratio, the revised Pillar 3 disclosure requirements and the large exposure framework.

Quantitative impact studies. In November 2015, the Committee published a quantitative impact study on TLAC, focusing on shortfall analyses. The purpose was to assess whether G-SIBs can meet the TLAC standard. The Committee also published the results of its interim impact analysis of its fundamental review of the trading book in November 2015. The report assesses the impact of proposed revisions to the market risk framework set out in two consultative documents of October 2013 and December 2014.

Progress reports. In July 2015, the Committee issued a progress report on the implementation of principles for effective supervisory colleges, highlighting the challenges faced by supervisors in running effective supervisory colleges as well as the practical approaches taken to address them. In December 2015, the Committee also published its third progress report on banks' adoption of the Committee's 2013 *Principles for effective risk data aggregation and risk reporting*.

Reports to the G20. In November 2015, the Committee reported to the G20 Leaders on its progress in finalising post-crisis reforms and on the implementation status of the Basel III reforms since November 2014. The report summarises the steps taken by member jurisdictions to adopt the Basel III standards, banks' progress in bolstering their capital and liquidity positions, the consistency of implementation in

2 Group 1 banks have Tier 1 capital of more than €3 billion and are internationally active. All other banks are Group 2 banks.

jurisdictions assessed since the Committee's last report, and the Committee's implementation work plan.

Supervision

During the year, the Committee published several documents to aid supervisors in undertaking effective supervision of banks.

Developments in credit risk management across sectors: current practices and recommendations. In June 2015, the Committee published a report on the current supervisory framework for credit risk, the state of credit risk management and implications for the supervisory and regulatory treatments of credit risk. It is based on a survey that was conducted with supervisors and firms in the banking, securities and insurance sectors worldwide.

Report on the impact and accountability of banking supervision. In July 2015, the Committee published a range-of-practice study on how supervisors around the world define, evaluate and manage the impact of their policies and actions, and then account for it to their stakeholders. The report shows how a well designed system of accountability can support operational independence and enhance transparency while safeguarding confidential, institution-specific information.

Corporate governance principles for banks. In July 2015, the Committee published a revised set of principles on corporate governance. The guidelines elaborate the importance of risk governance as part of a bank's overall corporate governance framework and promote the value of effective boards and board committees together with strong control functions. They also provide guidance for bank supervisors in evaluating the processes used by banks to select board members and senior management.

Guidelines for identifying and dealing with weak banks. In July 2015, the Committee published updated guidelines building on the Committee's 2002 guidance. These cover the underlying supervisory preconditions for dealing with weak banks and set out techniques for identifying problems as well as corrective measures and, for resolution authorities, tools for dealing with failing or failed banks.

General guide to account opening. In July 2015, the Committee issued for public consultation a revised version of the *General guide to account opening and customer identification*, first published in 2003. The customer information collected and verified at the account-opening stage is crucial for the bank to fulfil its obligations under anti-money laundering and combating the financing of terrorism (AML/CFT) rules. When finalised, the revised version will become an annex to the Committee's *Sound management of risks related to money laundering and financing of terrorism*, published in January 2014.

Guidance on credit risk and accounting for expected credit losses. Issued in December 2015, this guidance replaces the Committee's *Sound credit risk assessment and valuation for loans* published in 2006. The guidance sets out supervisory expectations for banks relating to sound credit risk practices associated with implementing and applying an expected credit loss (ECL) accounting framework.

Guidance on the application of the Core principles for effective banking supervision to the regulation and supervision of institutions relevant to financial inclusion.

Published in December 2015, the consultative document sets out additional guidance on the application of the Core principles for effective banking supervision to the supervision of financial institutions serving the financially excluded. It includes a report on the range of practice in the regulation and supervision of institutions relevant to financial inclusion, and expands on microfinance activities.

BCBS: www.bis.org/bcbs

Committee on the Global Financial System

The Committee on the Global Financial System (CGFS) monitors financial market developments for the Governors of the BIS Global Economy Meeting and analyses the implications for financial stability and central bank policy. Chaired by William C Dudley, President of the Federal Reserve Bank of New York, the Committee comprises Deputy Governors and other senior officials from 23 central banks of major advanced and emerging market economies, as well as the Head of the BIS's Monetary and Economic Department and its Economic Adviser.

Among the topics discussed by the Committee during the past year were the challenges posed to international financial stability by divergent monetary policy across currency areas, as well as the impact from a slowdown in EME growth prospects. In its regular monitoring of global liquidity trends, the Committee focused on the potential risks posed by the build-up of financial imbalances among countries that had so far been relatively unaffected by the global financial crisis. It also discussed the potential risks from the compression of risk premia in different asset markets earlier in the year, and the implications of increased asset price volatility. Finally, the Committee organised a workshop where experts reviewed member jurisdictions' experiences with macroprudential policymaking to identify areas where further study could be beneficial.

Additionally, in-depth studies are commissioned from groups of central bank experts. Two such reports were published this year.

Fixed income market liquidity. Confirming the findings of a 2014 report on market-making and proprietary trading, the January 2016 report established that diverging supply and demand trends for liquidity services may have made liquidity conditions more fragile. As key drivers, the report identified the rise of electronic trading, dealer deleveraging, possibly reinforced by regulatory reform, and unconventional monetary policy. It concluded that, in the medium term, more stringent capital requirements and other measures taken to bolster market intermediaries' risk-absorption capacity will strengthen systemic stability, not least by ensuring a more sustainable supply of immediacy services. Overall, the report underscores the need for a close monitoring of liquidity conditions as well as an ongoing assessment of how new liquidity providers and trading platforms will affect the distribution of risks among market participants.

Regulatory change and monetary policy. Issued jointly with the Markets Committee in May 2015, this report focused on the likely effects of new financial regulation on financial system structure and financial intermediaries, and how central banks will need to take these changes into account when implementing monetary policy. Based on information from central bank case studies and structured interviews with private sector market participants, among other sources, the report argues that the effect on monetary policy operations and transmission should be limited and manageable. It concludes that central banks should be able to adjust their existing policy frameworks to preserve policy effectiveness. These adjustments will tend to differ across jurisdictions.

CGFS: www.bis.org/cgfs

Committee on Payments and Market Infrastructures

The Committee on Payments and Market Infrastructures (CPMI) promotes the safety and efficiency of payment, clearing, settlement and reporting systems and arrangements, thereby supporting financial stability and the wider economy. Comprising senior officials from 25 central banks, the CPMI is a global standard setter that aims to strengthen regulation, policy and practice in this field worldwide. It also serves as a forum for central banks to monitor and analyse developments in payment, clearing, settlement and reporting within and across jurisdictions and to cooperate in related oversight, policy and operational matters, including the provision of central bank services. The Committee Chair is Benoît Cœuré, a member of the ECB's Executive Board.

Monitoring implementation of standards for financial market infrastructures

The CPMI-IOSCO *Principles for financial market infrastructures* (PFMI), published in April 2012, set out international regulatory standards for systemically important financial market infrastructures (FMIs) and specify the responsibilities for the authorities that oversee, supervise or regulate them.

Monitoring the implementation of the PFMI, a high priority for the CPMI, involves three phases: Level 1, on the adoption of the PFMI in domestic regulatory frameworks; Level 2, on the completeness and consistency of these regulatory frameworks; and Level 3, on the consistency in the outcomes of the PFMI implementation across jurisdictions.

Level 1: In June 2015, the CPMI and IOSCO published a second update to the Level 1 assessments, which showed that the 28 participating jurisdictions are continuing to make good progress in implementing the PFMI. In particular, the report highlighted significant progress on implementation measures applicable to central securities depositories and securities settlement systems.

Level 2: In December 2015, the CPMI and IOSCO published a Level 2 assessment report on implementation measures applicable to central counterparties (CCPs) and trade repositories in Australia. In November 2015, they published a Level 2 report on the assessment of the completeness and consistency of frameworks and outcomes of jurisdictions' implementation of the PFMI's "Responsibilities of authorities".

Level 3: In June 2015, the CPMI and IOSCO initiated a Level 3 assessment focusing on a subset of PFMI requirements that relate to CCPs' financial risk management. Covering certain governance, stress-testing, margin, liquidity, collateral and recovery practices, the assessment looks at the outcomes achieved by a number of globally and locally active CCPs that clear exchange-traded and OTC derivative products. A report presenting the results of this assessment is expected to be published in 2016.

CCP resilience and recovery

In April 2015, the BCBS, CPMI, FSB and IOSCO agreed on a workplan to coordinate their respective international policy work aimed at enhancing the overall resilience, recovery planning and resolvability of CCPs and to work in close collaboration.[3] The workplan also calls for better understanding of the interdependencies between CCPs and their direct and indirect members. Jointly with IOSCO, the CPMI is responsible for the work related to strengthening CCP resilience and recovery, and is working closely with the other committees on CCP resolution and interdependencies.

Taking into account the findings from the implementation monitoring of the PFMI, the CPMI and IOSCO started work on the strengthening of CCP resilience and recovery in mid-2015, paying particular attention to the adequacy of existing standards. A consultative report on the findings from this analysis is set for publication in 2016.

Harmonisation of OTC derivatives data

In November 2014, the CPMI and IOSCO set up a working group to develop guidance on the harmonisation of key OTC derivatives data, including uniform transaction and product identifiers. Consultative reports published so far include the *Harmonisation of the Unique Transaction Identifier* in August 2015, the *Harmonisation of key OTC derivatives data elements (other than UTI and UPI) – first batch* in September 2015, and the *Harmonisation of the Unique Product Identifier* in December 2015. The working group will conduct additional public consultations with a view to fulfilling its mandate by end-2017.

Retail payments

The CPMI's report on *Digital currencies*, published in November 2015, analyses the impact on financial markets and the wider economy that could accrue from digital currency schemes with an embedded decentralised transfer mechanism based on distributed ledger technology.

Correspondent banking

The CPMI's consultative report on *Correspondent banking*, published in October 2015, reviews technical measures relating to know-your-customer (KYC) utilities; the increased use of the Legal Entity Identifier (LEI); information-sharing mechanisms; and improvements in payment messages. It also puts forward four recommendations for consideration by the industry and authorities.

Cyber resilience in FMIs

A consultative report on *Guidance on cyber resilience for financial market infrastructures* was published in November 2015, with a final report envisaged in 2016. These publications follow up the CPMI's November 2014 report on *Cyber resilience in financial market infrastructures*, which noted the importance of an integrated and comprehensive approach to the cyber resilience of FMIs and the need for international cooperation in this area. The report aimed to raise awareness of the systemic implications of cyber attacks on FMIs. Building on their previous

3 See http://www.bis.org/cpmi/publ/d134b.pdf.

separate work on cyber resilience, the CPMI and IOSCO established a joint working group on cyber resilience for FMIs in December 2014 to consider additional guidance and identify other relevant issues.

Payment aspects of financial inclusion

The CPMI and the World Bank Group set up a joint task force in mid-2014 to examine demand and supply factors affecting financial inclusion in the context of payment systems and services, and to suggest measures that could be taken to address these issues. A consultative report was published in September 2015 on the payment aspects of financial inclusion and set out guiding principles designed to assist countries that seek to advance financial inclusion in their markets through payments. A final report is expected in 2016.

Red Book statistics

After launching a revision of the statistical methodology in June 2015, the CPMI published in December 2015 its annual update of the *Statistics on payment, clearing and settlement systems in the CPMI countries*.

CPMI: www.bis.org/cpmi

Markets Committee

The Markets Committee is a forum where senior central bank officials jointly monitor developments in financial markets and assess their implications for market functioning and central bank operations. With a membership comprising 21 central banks, the Committee is chaired by Guy Debelle, Assistant Governor of the Reserve Bank of Australia.

The Committee's discussions during the year were shaped by the divergent monetary policy settings of the major central banks as well as by market developments in emerging economies. Among the topics discussed were negative policy rates, and the implications of monetary policy measures and exchange rate movements for market functioning.

In addition to monitoring near-term developments, the Committee considered longer-term structural and operational issues. Topics included the evolving structure of the US Treasury market, as well as market intelligence-gathering and the provision of custody and banking services by central banks.

One special project undertaken by the Committee in May 2015 was to set up a working group to support the establishment of a single global code of conduct for the foreign exchange market and to promote adherence to the new standards and principles. This work is being undertaken in collaboration with a group of market participants from the major financial centres in both advanced and emerging market economies. The target date for the code's finalisation, as well as for the proposals to ensure greater adherence, is May 2017.

In January 2016, the Committee held a workshop with private sector participants on industry-led initiatives to create independent netting and execution facilities for orders used to set price benchmarks (fix orders) in the foreign exchange market.

The Committee's report on *Electronic trading in fixed income markets*, issued in January 2016, examines how electronic trading has transformed the structure of the fixed income markets, including price discovery and the nature of liquidity provision. The report finds that electronic trading has underpinned strong growth in algorithmic and high-frequency trading in the most liquid market segments.

Innovative trading venues and protocols have proliferated, and new market participants have emerged.

Markets Committee: www.bis.org/markets

Central Bank Governance Group

The Central Bank Governance Group serves as a venue for the exchange of views among Governors on matters relating to the design and operation of their institutions. The focus is on the institutional and organisational setting in which central banks pursue monetary and financial policies, including their functions, independence and decision-making structures. The group comprises nine Governors and is chaired by Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia.

Discussions are informed by information flows through the Central Bank Governance Network, comprising almost 50 of the BIS member central banks. Information on institutional design and governance collected via the Network and other research are made available to central bank officials. Selected examples of this research are published.

In 2015/16, the Governance Group convened during several BIS bimonthly meetings to discuss, among other topics, the evolution of liquidity assistance policies and their legal foundations; reasons why central banks might create senior executive positions along the lines of private sector chief officer posts; issues around changing central bank law; and the commission by central banks of special purpose reviews of their own performance and arrangements. The information and insights provided help central banks assess the effectiveness of their own arrangements as well as the alternatives available.

Central Bank Governance Group: www.bis.org/cbgov

Irving Fisher Committee on Central Bank Statistics

The Irving Fisher Committee on Central Bank Statistics (IFC) is a forum for central bank economists and statisticians to address statistical topics related to monetary and financial stability. Governed by the international central banking community, it is hosted by the BIS and associated with the International Statistical Institute (ISI). The IFC has 83 institutional members, including almost all BIS shareholder central banks, and is currently chaired by Turalay Kenç, Deputy Governor of the Central Bank of the Republic of Turkey.

The IFC organised several activities in 2015/16 with the support of its member central banks and a number of international organisations. A significant part of this work was conducted in cooperation with the G20-endorsed international Data Gaps Initiative (DGI) to enhance economic and financial statistics. One important outcome in 2015 was the reference document *Consolidation and corporate groups: an overview of methodological and practical issues*, which draws on the outcome of an IFC workshop on residency/local and nationality/global views of financial positions. Published by the Inter-Agency Group on Economic and Financial Statistics (IAG), the report completes the DGI recommendation to investigate the issue of monitoring and measuring cross-border exposures of corporations.

Another key DGI recommendation is to develop and improve sectoral financial accounts. To that end, the IFC has continued to organise regional workshops for central banks, including one at the Bank of Algeria for the African region in early 2016. In a third DGI-related area, the IFC has followed up on data-sharing issues and good practices between statistical and supervisory authorities.

The Committee also continued its work on financial stability analysis and balance of payments issues as well as on other topics relevant to the central banking statistical community. In particular, following the publication of a specific IFC Bulletin on financial inclusion indicators, it surveyed its members on national practices and projects related to financial inclusion in 2015. It also reviewed central banks' experience and interest in exploring big data as well as their use of the SDMX (Statistical Data and Metadata eXchange) standard, with the publication of two reports on these topics.

In terms of meetings, the IFC organised a seminar on the assessment of post-crisis international capital flows in cooperation with the Central Bank of Brazil and the Center for Latin American Monetary Studies (CEMLA). Together with Narodowy Bank Polski (the central bank of Poland), it also held a workshop on combining micro and macro statistical data for financial stability analysis. Finally, the IFC sponsored several sessions at the ISI's 60th biennial World Statistics Congress in 2015 on topics such as central bank sources and uses of derivatives statistics; improving government debt statistics; the use of surveys by central banks; developing and improving sectoral accounts; and micro data for multipurpose data provision.

IFC: www.bis.org/ifc

Financial Stability Institute

The Financial Stability Institute (FSI) assists supervisors worldwide in strengthening their financial systems by disseminating global financial standards. The FSI carries out this task through high-level meetings; policy and implementation meetings; conferences and seminars; FSI Connect, the BIS's online information resource and learning tool; and by monitoring the implementation of Basel standards in non-BCBS member jurisdictions.

High-level meetings

The FSI organises high-level meetings jointly with the BCBS in all major regions of the world. These meetings are designed for the Deputy Governors of central banks and heads of supervisory authorities, and focus on policy discussions relating to global banking standards, emerging financial developments, and regional implementation issues. In 2015, 286 heads of supervision in Africa, Asia-Pacific, central and eastern Europe, Latin America, and the Middle East and North Africa attended FSI high-level meetings.

The topics discussed included the recent BCBS policy work to mitigate risk-weighted asset variability through the enhancement of standardised approaches; the impact of Basel III on bank business models; bank governance and culture; the FSB's new Total Loss-Absorbing Capacity (TLAC) requirements; and emerging cyber risks in the financial industry.

Policy and implementation meetings

In 2015, the FSI introduced policy and implementation meetings for senior officials who play a key decision-making role in implementing regulatory reforms at the national level (ie divisional/departmental heads at financial authorities). The purpose is to discuss policy and supervisory issues related to new aspects of the Basel III framework. Held in Lima and Hong Kong, the first such meetings focused on revisions to the standardised approach for credit risk.

Conferences and seminars

These events provide a venue for supervisors around the world to confer on core aspects of financial sector regulation and supervision. Separate events cover banking, insurance, and cross-sectoral areas.

On the banking side, the FSI organised 30 seminars and conferences in 2015. These included 10 events in Switzerland and 20 in other jurisdictions, which were organised in cooperation with 14 regional supervisory groups.[4] The main topics covered at these events included supervisory techniques and bank practices on stress testing; supervisory approaches to dealing with regional and domestic systemically important banks; liquidity risk management and supervision; and the implementation of the Basel III Countercyclical Capital Buffer.

The FSI held eight insurance-related seminars, of which five were in collaboration with the International Association of Insurance Supervisors (IAIS). The main topics covered were the new solvency and capital standards for insurers; the policy framework for global systemically important insurers (G-SIIs); and the emerging resolution framework for insurers. The FSI, in collaboration with the IAIS, also organised a virtual seminar for 189 insurance supervisors from 59 jurisdictions, involving a series of seven webinars and selected FSI Connect tutorials covering topics on the key elements of insurance supervision.

In 2015, the FSI organised two cross-sectoral events, one jointly with IOSCO and another with International Association of Deposit Insurers (IADI). The joint event with IOSCO covered cross-sectoral issues relating to the trading book, market infrastructure and the culture of compliance. The event co-organised with IADI focused on current and emerging issues related to bank resolution, crisis management and deposit insurance.

In total, 1,544 central bankers and financial sector supervisors attended FSI conferences and seminars.

FSI Connect

FSI Connect offers over 260 tutorials covering a wide range of regulatory policy and supervisory topics. It now has about 10,000 subscribers from over 300 central banks and other public sector financial authorities.

In 2015, the FSI released 29 new and updated tutorials on topics such as the leverage ratio; the standardised approach to counterparty credit risk; external audit; the new accounting standards on financial instrument impairment; regulation and supervision of inclusive insurance markets; basic capital requirements and market-adjusted valuation for G-SIIs; and the *Core principles for effective deposit insurance systems*.

[4] Africa: Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI); and Southern African Development Community (SADC). Americas: Association of Supervisors of Banks of the Americas (ASBA); Center for Latin American Monetary Studies (CEMLA); and Caribbean Group of Banking Supervisors (CGBS). Asia and the Pacific: Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Working Group on Banking Supervision; South East Asian Central Banks (SEACEN); and Central Banks of South East Asia, New Zealand and Australia (SEANZA) Forum of Banking Supervisors. Europe: European Banking Authority (EBA); and Group of Banking Supervisors from Central and Eastern Europe (BSCEE). Middle East: Arab Monetary Fund (AMF); and Gulf Cooperation Council (GCC) Committee of Banking Supervisors. Other: Group of French-Speaking Banking Supervisors (GSBF); and Group of International Finance Centre Supervisors (GIFCS).

Monitoring implementation of Basel standards in non-BCBS member jurisdictions

The FSI annually surveys non-BCBS member jurisdictions on their implementation of the Basel III framework. The results of this survey are part of the annual BCBS report to the G20 Leaders. The 2015 survey results showed that 121 countries worldwide, including BCBS member jurisdictions, had implemented or were in the process of implementing Basel III.[5]

FSI: www.bis.org/fsi

Activities of BIS-hosted associations

This section reviews the year's principal activities of the three associations hosted by the BIS in Basel.

Financial Stability Board

The Financial Stability Board (FSB) coordinates at the international level the financial stability work of national authorities and international standard-setting bodies, and develops and promotes financial sector policies to enhance global financial stability. The FSB's mandate, membership and framework of committees and management are set out in its Annual Report. The FSB is chaired by Mark Carney, Governor of the Bank of England.

The FSB continued its policy work to address the causes of the financial crisis, increased its work to analyse the implementation and effects of these reforms, and continued to monitor emerging vulnerabilities in the financial system.

Reducing the moral hazard posed by systemically important financial institutions

The FSB finalised important elements of its policy agenda to address the moral hazard risks posed by global systemically important financial institutions (G-SIFIs).

Resolution of SIFIs. In November 2015, the FSB published the final Total Loss-Absorbing Capacity (TLAC) standard to ensure that failing G-SIBs will have sufficient loss-absorbing and recapitalisation capacity for authorities to implement an orderly resolution that mitigates the impact on financial stability, maintains the continuity of critical bank functions and avoids the use of public funds.

In November 2015, the FSB published *Principles for Cross-border Effectiveness of Resolution Actions*, which provides principles on statutory and contractual mechanisms that jurisdictions should consider including in their legal frameworks to give cross-border effect to resolution actions. In November 2015, the FSB also published guidance on cooperation and information-sharing between supervisors in Crisis Management Groups (CMGs) for G-SIFIs and authorities from jurisdictions not represented on a CMG where a firm is systemic for their market.

In November 2015, the FSB published a progress report for the G20 on its ongoing resolution work. The report set out the results of the first round of the Resolvability Assessment Process (RAP) and ongoing policy work to promote the full

[5] A jurisdiction that has implemented or indicated plans to implement at least one component of Basel III is deemed to be in the process of implementing Basel III. "Implementation" here refers to a change made in a jurisdiction's legislation, rules and policy documents.

implementation of the *Key Attributes of Effective Resolution Regimes for Financial Institutions*. In the same month, the FSB also issued consultative documents on funding in resolution and on arrangements to support operational continuity in resolution, and on effective resolution strategies for systemic insurers. In March 2016, the FSB published its second thematic peer review on resolution regimes for banks in FSB member jurisdictions.

In July 2015, the FSB announced it would wait to finalise the assessment methodologies for identifying non-bank non-insurer global systemically important financial institutions (NBNI G-SIFIs) until work on the financial stability risks posed by asset management activities was completed. This allowed for further time to analyse these activities and will inform the decision on further steps to take on the revised assessment methodology.

The FSB, BCBS, CPMI and IOSCO continued their work to enhance the resilience, recovery planning and resolvability of central counterparties.

SIFI identification and higher loss absorbency. The FSB published new lists for G-SIBs and G-SIIs in November 2015. In the same month, the International Association of Insurance Supervisors (IAIS) consulted on revisions to the G-SII methodology and changes to the definition of non-traditional, non-insurance (NTNI) activities. Both efforts will be instrumental for a revised G-SII methodology that can appropriately address all types of insurance, reinsurance and other financial activities of global insurers. The 2016 G-SII list is expected to use the agreed new methodology.

In October 2015, the IAIS published the first version of its Higher Loss Absorbency (HLA) requirement for G-SIIs, which was endorsed by the FSB Plenary in September.

More intense supervisory oversight. In May 2015, the FSB published a thematic peer review on supervisory frameworks and approaches for systemically important banks. The review concluded that national authorities have taken significant steps to enhance supervisory effectiveness. More work is needed to further enhance effectiveness, in particular by strengthening cross-border supervisory cooperation.

Improving the OTC derivatives markets

In November 2015, the FSB published its 10th progress report on the implementation of OTC derivatives market reforms. In the same month, the FSB also published a thematic peer review on OTC derivatives trade reporting; this report found that, while good progress has been made in implementing these requirements, further work needs to be undertaken (including by addressing legal barriers to reporting and access) to ensure data collected by trade repositories can be effectively used by regulators.

Transforming shadow banking into resilient market-based finance

Also in November 2015, the FSB published its fifth shadow banking monitoring report, which included a new activity-based “economic function” approach to narrow the focus to parts of the non-bank financial sector where shadow banking risks may arise and may need appropriate policy responses. The report was published together with a progress report on the FSB’s work on *Transforming Shadow Banking into Resilient Market-based Finance*. In the same month, to address financial stability risks, the FSB also published final policy recommendations for haircuts on certain non-bank-to-non-bank, non-centrally cleared securities financing transactions.

In November 2015, the FSB also published *Standards and Processes for Global Securities Financing Data Collection and Aggregation*, which set out details about enhanced data collection on securities financing markets to obtain a more timely and comprehensive perspective on developments in these markets and so detect financial stability risks.

Measures to reduce misconduct risk

The FSB coordinated several workstreams addressing misconduct in the financial sector and published a progress report to the G20 in November 2015. The workstreams included considering whether post-crisis reforms to incentives are sufficient to address misconduct risks; and whether steps are needed to improve global standards of conduct in the fixed income, commodity and currency (FICC) markets, including improvements in the integrity and reliability of benchmarks. A further update on the use of governance frameworks and various compensation tools for addressing misconduct risk will be provided by the time of the G20 Leaders' Summit in September 2016.

In July 2015, the FSB published a progress report on steps being taken by authorities to reform interest rate benchmarks in key currencies. These included steps to improve major interest rate benchmarks (such as Libor, Euribor and Tibor), as well as the development and introduction of near risk-free interest rate benchmarks in several jurisdictions. The FSB also published a progress report on reforms to foreign exchange benchmarks in October 2015.

Addressing the decline in correspondent banking

The FSB initiated work to examine the extent and causes of banks' withdrawal from correspondent banking and the implications for affected jurisdictions. The resulting *Report to the G20 on actions taken to assess and address the decline in correspondent banking* published in November 2015 presented a four-point action plan that will be implemented in partnership with other organisations. The work will further examine the reasons for the decline in correspondent banking relationships and implications for financial inclusion and financial stability; clarify regulatory expectations, including through additional guidance by the Financial Action Task Force; support domestic capacity-building in jurisdictions that are home to affected respondent banks; and strengthen tools for due diligence by correspondent banks.

Addressing data gaps

The International Monetary Fund (IMF) and the FSB published their sixth annual progress report on the implementation of the G20 Data Gaps Initiative in September 2015. The report noted significant progress in addressing the data gaps identified after the financial crisis. The IMF and FSB proposed a second phase with a five-year horizon with more specific objectives that promote the regular flow of high-quality statistics for policy use. This was endorsed by the G20.

Advancing transparency through the Legal Entity Identifier

The objective of the global Legal Entity Identifier (LEI) system is to provide unique identification of parties to financial transactions across the globe. Over 415,000 entities in 195 countries have received unique identifiers for financial transactions. Authorities in several FSB jurisdictions are already using the LEI to support regulatory actions, as described in the progress report of the LEI Regulatory Oversight

Committee (LEI ROC). The FSB is providing secretariat services to the LEI ROC and will continue to promote LEI uses to support regulatory actions and data quality.

Strengthening accounting standards

The FSB supports the work of the International Forum of Independent Audit Regulators (IFIAR) to enhance audit quality. In September 2015, it publicly expressed encouragement for the IFIAR's work with the big six audit firms to promote greater consistency of audit quality in G-SIFIs.

Enhanced Disclosure Task Force (EDTF)

The EDTF was a private sector initiative to enhance the risk disclosure practices of major banks. It has issued principles and recommendations for such disclosures and has conducted three annual surveys on the level and quality of implementation in the major banks' annual reports. The last survey was published in December 2015 and showed significant progress in implementing the recommendations.

At the FSB's request, the EDTF published in December 2015 a report on the *Impact of Expected Credit Loss Approaches on Bank Risk Disclosures*, which recommends changes banks will need to make to their financial disclosures with the implementation of the new accounting standards for expected credit loss.

The EDTF's work has now been completed, and the Task Force has been formally disbanded.

Task Force on Climate-related Financial Disclosure (TCFD)

In December 2015, the FSB established the TCFD to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to lenders, insurers, investors and other stakeholders. The Task Force will consider the physical, liability and transition risks associated with climate change, and what constitutes effective financial disclosures in this area. The FSB announced the initial membership of the Task Force in January 2016 and presented its Phase 1 report to the FSB in March.

Corporate funding structures and incentives

The FSB coordinated work to consider the factors that shape the liability structure of corporates, focusing on the implications for financial stability. The report to the G20 highlighted the growth of non-financial corporate debt in many countries over the past 15 years, including an acceleration in emerging economies since the financial crisis.

Monitoring implementation and the effects of reforms

Implementation monitoring of agreed standards and the analysis of the effects of the G20 reforms are a key part of the FSB's work. In November 2015, the FSB published its first annual report to the G20 on the implementation and effects of financial regulatory reforms. The report found that implementation progress has been steady but uneven; that the most tangible effect of the reforms has been to make the banking sector more resilient; and that this improved resilience has been achieved while maintaining the overall provision of credit to the real economy.

In addition to periodic progress reports, the FSB monitors the implementation and effectiveness of international financial standards and policies via its peer review programme. Over the past year, the FSB published country peer reviews of China, Saudi Arabia and Turkey, as well as a thematic review on supervisory frameworks and approaches for SIBs in May 2015. During the year, it started work on the country review of India and a thematic review on shadow banking.

FSB: www.fsb.org

International Association of Deposit Insurers

The International Association of Deposit Insurers (IADI) is the global standard-setting body for deposit insurance systems. IADI contributes to the stability of financial systems by advancing standards and guidance for effective deposit insurance systems and promoting international cooperation among deposit insurers, bank resolution authorities and other safety net organisations.

The number of organisations affiliated with IADI stands at 102, comprising 80 deposit insurers as members, nine central banks and bank supervisors as associates, and 13 institutional partners. Thus, almost 70% of all jurisdictions with explicit deposit insurance systems are represented within IADI's membership.

In 2015, Thomas M Hoenig, Vice President of the US Federal Deposit Insurance Corporation, was appointed as IADI's President and Chair of its Executive Council, succeeding Jerzy Pruski, President of the Management Board of Poland's Bank Guarantee Fund.

Strategic goals

IADI revised its strategic goals for 2015–18, adopting three new objectives: promoting compliance with the IADI Core Principles for Effective Deposit Insurance Systems; advancing deposit insurance research and policy development; and providing IADI members with technical support to modernise and upgrade their systems.

IADI's Core Principles are incorporated in the FSB's Key Standards for Sound Financial Systems, and are used in the Financial Sector Assessment Program (FSAP) reviews conducted by the IMF and the World Bank.

After updating the Core Principles in 2014, IADI updated its Core Principles Assessment Handbook. The Handbook is used for ensuring accurate interpretation and understanding of each Principle when conducting the assessment process against IADI standards.

In support of the strategic goals, the Association has undertaken a review of its governance structure and funding arrangements, with a strong emphasis on building a long-term funding model that would adequately resource the planned framework of IADI's initiatives for policy development and technical assistance.

International conferences and events

IADI's Third Biennial Research Conference, held in June 2015 at the BIS in Basel, provided a forum for researchers and safety net practitioners to advance their knowledge on a wide range of issues facing contemporary deposit insurers.

In September 2015, IADI and the FSI held their fifth annual joint seminar on bank resolution, crisis management and deposit insurance issues. Since 2008, IADI, in cooperation with the FSI, has produced eight online tutorials on deposit insurance systems.

Crisis management, together with the challenges deposit insurers face in responding to upcoming crises, was the focus of IADI's 14th Annual Conference, held in October 2015 in Kuala Lumpur, Malaysia.

IADI also hosted global and regional seminars in a wide variety of locations, on topics identified in IADI member survey results, including funding, claims management, legal frameworks, and Islamic and integrated deposit insurance systems.

IADI: www.iadi.org

International Association of Insurance Supervisors

The International Association of Insurance Supervisors (IAIS) is the global standard-setting body for the insurance sector. Its mission is to promote effective and globally consistent insurance supervision and to contribute to global financial stability so that policyholders benefit from fair, safe and stable insurance markets. Victoria Saporta, Director of Financial Policy of the Prudential Regulation Authority at the Bank of England, chairs the IAIS Executive Committee.

ComFrame

Since 2011, the IAIS has been designing ComFrame, a common framework for the supervision of internationally active insurance groups (IAIGs). It provides a set of international supervisory requirements focusing on effective group-wide supervision of IAIGs. These requirements expand upon those in the IAIS Insurance Core Principles. Field-testing of ComFrame started in 2014 and will continue through 2019, when it is scheduled for formal adoption. Members will begin implementing it shortly thereafter.

In February 2016, the IAIS completed field-testing of the qualitative requirements for IAIGs set out in ComFrame. These covered legal and management structures, in addition to governance and enterprise risk management. Field-testing results will be taken into account in future drafts for further public consultation later in 2016.

Assessment methodology for global systemically important insurers

Global systemically important insurers (G-SIIs) are insurance entities whose distress or disorderly failure would cause significant disruption to the global financial system and economic activity. Throughout 2015 and continuing into 2016, the IAIS undertook its first three-year review of the 2013 initial assessment methodology used by the FSB to identify G-SIIs and, in November 2015, issued a consultation document reflecting improvements and refinements drawn from the application of the initial assessment methodology. The IAIS is expected to approve a revised methodology later in 2016.

Global insurance capital standards

In November 2015, the IAIS adopted its initial version of the higher loss absorbency requirements for G-SIIs, which G20 leaders subsequently endorsed. This followed Executive Committee approval and FSB endorsement in October 2015.

In September 2015, IAIS workgroups completed the second annual field-testing exercise for the development of the first two insurance capital standards – the basic capital requirement and higher loss absorbency for G-SIIs. These workgroups have also drafted field-testing packages for launch in May 2016 and consultation for launch in July 2016.

Insurance Core Principles

Insurance Core Principles (ICPs) developed by the IAIS provide a globally accepted framework for the regulation and supervision of the insurance sector. In November 2015, the IAIS adopted revisions to Licensing (ICP 4), Suitability of Persons (ICP5), Corporate Governance (ICP 7), Risk Management and Internal Control (ICP 8), Group-wide Supervision (ICP 23) and Supervisory Cooperation and Coordination (ICP 25). These changes followed the comprehensive self-assessments and peer reviews, taking into account recent developments in group supervision, corporate governance and risk management, as well as standards and guidance issued by other standard-setting bodies.

International accounting and auditing

As part of the revisions to Insurance Core Principle 7 adopted in November 2015, the IAIS strengthened supervisory expectations of insurer boards in overseeing external audit processes. The IAIS also submitted comments to the International Accounting and Auditing Standards Board concerning its proposal on "Enhancing audit quality in the public interest".

Macroprudential policy and surveillance framework

In January 2016, the IAIS released its *2015 Global Insurance Market Report* covering the global insurance sector from a supervisory perspective with a focus on sector performance and key risks. This report is a key component of the IAIS macroprudential policy and surveillance framework. The report found that the global (re)insurance sector remains stable in the midst of a challenging economic and financial environment with surging merger and acquisition activity in the sector.

Supporting materials

Over the course of the year, the IAIS published papers on the regulation and supervision of captive insurers, conduct of business risk and its management, and conduct of business in inclusive insurance.

Self-assessment and peer reviews

As part of a comprehensive thematic review of the Insurance Core Principles, the IAIS released its aggregate report on Supervisory Measures in October 2015. This report included a review of Supervisory Review and Reporting (ICP 9), Preventative and Corrective Measures (ICP 10) and Enforcement (ICP 11). These assessment results help identify areas for potential revision and feed into IAIS standard-setting and implementation efforts.

Multilateral memorandum of understanding

Insurance supervisor signatories to the IAIS Multilateral Memorandum of Understanding (MMoU) participate in a global framework for cooperation and information exchange. The memorandum sets the minimum standards required of signatories. Supervisors participating in the MMoU are in a better position to promote the financial stability of cross-border insurance operations for the benefit of consumers. Twelve new signatories joined the MMoU, bringing the number of signatories to 55 jurisdictions representing more than 65% of worldwide premium volume.

Coordinated implementation framework

The Coordinated Implementation Framework guides the implementation of the IAIS supervisory material work programme. Last year, the IAIS provided online training for 177 new supervisors from 46 jurisdictions in partnership with the Financial Stability Institute. It also launched an update of the Core Curriculum with the World Bank, continued its regional capacity-building programme with the Asian Development Bank, and collaborated with the Access to Insurance Initiative, to advance capacity-building in inclusive insurance markets, a key focus for standard-setting bodies under the Global Partnership for Financial Inclusion.

IAIS: www.iaisweb.org

Economic analysis, research and statistics

The BIS's economic analysis and research on monetary and financial stability policy issues are conducted by its Monetary and Economic Department (MED). Economists are located at the head office in Basel and at the BIS Representative Offices in Hong Kong SAR and Mexico City. The BIS also compiles and disseminates international statistics on financial institutions and markets. Through its economic analysis, research and statistics, the BIS helps to meet the needs of monetary and supervisory authorities for policy insight and data.

Analysis and research in the Basel Process

Analysis and research at the BIS are the basis of its background notes for meetings, analytical support for the Basel-based Committees, and the Bank's own publications. Research seeks to strike a balance between responsiveness to short-term issues and proactiveness in identifying what will become key themes in future.

Collaborative efforts with central bank and academic researchers around the world stimulate broad dialogue on the policy questions that merit deeper study. To strengthen research collaboration with senior professionals from academia and research institutions, the BIS in 2015 launched the Alexandre Lamfalussy Senior Research Fellowship. This fellowship complements the visiting fellows programme for academic researchers and the Central Bank Research Fellowship (CBRF) Programme. Moreover, the BIS has set up an Advisory Panel, consisting of distinguished academics with established reputations, that serves as an independent sounding board for BIS research and analysis, provides connections between subject areas and offers new insights on current research topics.

The BIS also organises conferences and workshops to bring together participants from policy, research and business. The flagship event for central bank Governors is the BIS Annual Conference. In June 2015, the 14th BIS Annual Conference focused on financial markets, taking stock of post-crisis lessons about the way they function and exploring if they were evolving towards a "new normal". Moreover, the semiannual meetings of the BIS Research Network provide an opportunity to discuss current macroeconomic and financial topics.

Most BIS analysis and research is published on the Bank's website, and in the *Annual Report*, the *BIS Quarterly Review*, *BIS Papers* and *BIS Working Papers*. BIS economists also publish in professional journals and other external publications.

BIS research: www.bis.org/forum/research.htm

Research topics

Reflecting the Bank's mission, BIS research centres on monetary and financial stability. The key areas of research are currently changes in financial intermediation; new frameworks for monetary and financial stability policy; and the global economy and spillovers. Under these headings, the specific topics taken up in the year included the evolution of non-bank financial intermediaries and the implications for systemic risk; the effectiveness of current monetary policies; pre- and post-boom resource misallocations; determinants of global liquidity; and the risk-taking channel of the exchange rate.

The research on financial intermediation aims at clarifying the interaction between financial institutions and markets. Analysing the way different intermediaries operate and markets function is an important foundation for this work. The perspectives gained help policymakers evaluate changes in the financial system for financial stability and monetary policies, both nationally and internationally. They also underpin the monitoring of financial vulnerabilities and cross-border spillovers, and inform the design of regulation and supervision, crisis management tools and resolution techniques as well as various aspects of monetary policy frameworks, including strategy, tactics and day-to-day implementation.

Over the past year, work in this area included research on the behaviour of asset managers and other non-bank financial intermediaries; the impact of monetary policy on bank profitability and the portfolio choices of long-term investors; the determinants of long-term debt issuance; and the implications of negative interest rates for market functioning.

Research on post-crisis monetary and financial stability policy frameworks aims to strengthen the analytical foundations of central bank policy. The gap between the theory and practice of central bank policy has widened as central banks have adopted increasingly unconventional measures, and the lines between policies targeting financial, macroeconomic and price stability have become increasingly blurred.

During the past year, specific projects in this area studied the impact of credit cycles on resource allocation; leverage and debt service ratios as drivers of financial cycles; and the effectiveness of macroprudential policies and their relationship with monetary policy.

Research on the global economy and spillovers focuses on how monetary and financial stability is affected by the tight real and financial integration of the global economy. The importance of such spillovers is reflected in the increasingly popular notion of "global liquidity", in both academic and policy circles.

One main focus of research in this area during the year was the risk-taking channel of the exchange rate. Others included policy dilemmas for emerging economies resulting from dollar borrowing; international reserves and capital flow dynamics; and the financial stability and macroeconomic implications of foreign currency borrowing. The BIS international banking statistics provide key information for these studies.

International statistical initiatives

The BIS's unique set of international banking and financial statistics underpins the Basel Process by supporting the analysis of global financial stability. This involves close cooperation with other financial international organisations, especially through the BIS's participation in the Inter-Agency Group on Economic and

Financial Statistics (IAG).[6] This is the body tasked with coordinating and monitoring the implementation of the recommendations to address the data gaps revealed by the financial crisis, in accord with the FSB and IMF proposals to the G20. Following the completion of the initiative's first phase in 2015, a second five-year phase is now under way with the aim of implementing the regular collection and dissemination of comparable, timely, integrated, high-quality and standardised statistics for policy use.

To close the data gaps related to international banking activities, the CGFS approved in 2011–12 enhancements to a key set of BIS data, the international banking statistics (IBS) reported by central banks under the guidance of the CGFS. These enhancements, finalised in 2015, have extended the coverage of the locational and consolidated banking statistics from banks' international activities to their domestic positions and the provision of information on banks' counterparties, specifically on their location and sector. As part of the second phase, the BIS has now started work with all reporting countries to close reporting gaps, review options for improving the consistency between the consolidated IBS and supervisory data, and support efforts to make data more widely available.

In addition to banking statistics, the BIS is also expanding the variety of the other statistics published on its website, including property prices, debt securities, debt service ratios, credit to the private and public sectors, global liquidity, effective exchange rates, foreign exchange markets, derivatives and payment systems. This statistical work focuses on long-term financial stability indicators to support the BIS's own research agenda as well as the initiatives of the Basel Process and the G20. It relies extensively on the BIS Data Bank, which contains, in particular, key economic indicators shared among BIS member central banks.

As part of these efforts, the BIS significantly expanded its statistical releases with the launch in September 2015 of the *BIS Statistical Bulletin,* now published concurrently with the *BIS Quarterly Review* and accompanied with informative charts illustrating the latest developments. The new bulletin comprises, in particular, the enhanced data on international banking and debt securities issuance as well as the new BIS series on government debt and estimates of debt service ratios for selected sectors. To complement the enhanced *BIS Statistics Warehouse*, a search tool for customised statistical queries was set up: the *BIS Statistics Explorer* is a new browsing tool for pre-defined views of the most current data.

Finally, the BIS hosts the International Data Hub, where information about systemically important financial institutions is stored and analysed on behalf of a limited number of participating supervisory authorities. The analysis supports participating supervisors in their engagement with G-SIBs and by enriching the dialogue between supervisors across jurisdictions. The first phase of this initiative, covering firms' credit exposures, was completed in 2013. The second phase, now under way, involves the gathering of data covering these firms' funding dependencies. The third phase will lead to the collection of additional information on the consolidated balance sheet of individual G-SIBs.

BIS statistics: www.bis.org/statistics

6 The IAG comprises the BIS, the ECB, Eurostat, the IMF, the OECD, the United Nations and the World Bank (www.principalglobalindicators.org). These organisations also sponsor the Statistical Data and Metadata eXchange (SDMX), whose standards the BIS uses for its collection, processing and dissemination of statistics (www.sdmx.org).

Other areas of international cooperation

The BIS participates in international forums such as the G20 and collaborates with key international financial institutions such as the International Monetary Fund and the World Bank Group. The BIS also contributes to the activities of central banks and regional central bank organisations by participating in their events as well as occasionally hosting joint events. During the past year, it co-organised events or collaborated with the following regional organisations on the topics outlined below:

- CEMLA (Center for Latin American Monetary Studies) – foreign exchange intervention, financial information, payment and settlement systems, regional banking integration, and reserves management;
- EMEAP (Executives' Meeting of East Asia-Pacific Central Banks) – foreign exchange and other financial markets;
- FLAR (Latin American Reserve Fund) – reserves management;
- MEFMI (Macroeconomic and Financial Management Institute of Eastern and Southern Africa) – macroprudential surveillance and reserves management; and
- SEACEN (South East Asian Central Banks) Research and Training Centre – stress testing, payment and settlement systems, macroeconomic and monetary policy management, financial stability and banking supervision.

Financial services

Through its Banking Department, the BIS offers a wide range of financial services designed to support the reserves management activities of central banks and other official monetary authorities, and to foster international cooperation in this area. Some 140 institutions, as well as a number of international organisations, make use of these services.

Safety and liquidity are the key features of BIS credit intermediation, which is supported by rigorous internal risk management. Independent control units reporting directly to the BIS Deputy General Manager monitor and control the related risks. A compliance and operational risk unit monitors operational risk, while financial risks – ie credit, liquidity and market risks – are overseen by a risk control unit that is also responsible for ensuring an integrated approach to risk management.

BIS financial services are provided from two linked trading rooms: one in Basel, at the Bank's head office; and one in Hong Kong SAR, at its Representative Office for Asia and the Pacific.

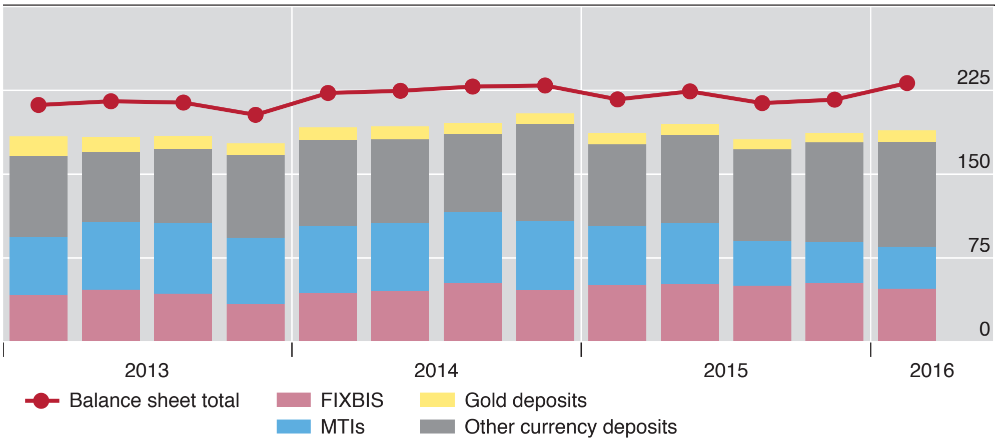
Scope of services

As an institution owned and governed by central banks, the BIS is well placed to understand the needs of reserves managers – their primary focus on safety and liquidity as well as the evolving need to diversify their exposures. To meet those needs, the BIS offers investments that vary by currency, maturity and liquidity. In addition, the Bank provides short-term liquidity facilities and extends credit to central banks, usually on a collateralised basis. Moreover, the Bank can act as trustee and collateral agent in connection with international financial operations.

Tradable instruments are available in maturities ranging from one week to five years, in the form of Fixed-Rate Investments at the BIS (FIXBIS), Medium-Term Instruments (MTIs) and products with embedded optionality (Callable MTIs). These instruments can be bought or sold throughout the Bank's dealing hours. Also offered are money market placements, such as sight/notice accounts and fixed-term deposits.

Balance sheet total and deposits by product

End-quarter figures, in billions of SDR



The sum of the bars indicates total deposits.

On 31 March 2016, total deposits stood at SDR 189 billion, of which about 95% were denominated in currencies and the remainder in gold (see graph).

The Bank transacts foreign exchange and gold on behalf of its customers, thereby providing access to a large liquidity base in the context of their rebalancing of reserve portfolios. The Bank's foreign exchange services encompass spot transactions in major currencies and Special Drawing Rights (SDR), as well as swaps, outright forwards, options and dual currency deposits (DCDs). In addition, the Bank provides gold services that include buying and selling, sight accounts, fixed-term deposits, earmarked accounts, quality upgrading, refining and location exchanges.

The BIS provides asset management products in the form of (i) dedicated portfolio management mandates tailored to each customer's preferences; or (ii) BIS Investment Pools (BISIPs), which are open-end fund structures that allow customers to invest in a common pool of assets. The BISIP structure is also used for the Asian Bond Fund (ABF) initiative sponsored by EMEAP to foster the development of local currency bond markets. Also based on this structure are the following initiatives developed with a group of advising central banks: the BISIP ILF1 (a US inflation-protected government securities fund); the BISIP CNY (a domestic Chinese sovereign fixed income fund); and the BISIP KRW (a domestic Korean sovereign fixed income fund).

The BIS Banking Department hosts global and regional meetings, as well as seminars and workshops on reserves management issues. These gatherings facilitate the exchange of knowledge and experience among reserves managers and promote the development of investment and risk management capabilities in central banks and international organisations. The Department also occasionally supports central banks in reviewing and assessing their reserves management practices.

Representative Offices

The BIS has a Representative Office for Asia and the Pacific (the Asian Office), located in Hong Kong SAR, and a Representative Office for the Americas (the

Americas Office), located in Mexico City. The Representative Offices promote cooperation and foster the exchange of information and data within each region by organising meetings, supporting regional institutions and Basel-based committees, and conducting research. The Asian Office also provides banking services to the region's monetary authorities. It is also through the office in Hong Kong that the Financial Stability Institute delivers a programme of meetings and seminars in the region that are closely tailored to local priorities.

As part of the overall BIS research programme, economists in the Representative Offices work with academics from around the world. In addition, both offices have developed secondment programmes to deepen research collaboration with member central banks in their respective regions. Papers based on research carried out in the Representative Offices, and published in BIS reports or external journals, have been used to inform policy discussions in various central bank meetings.

The Asian Office

The Asian Office's research activities are guided by the Asian Consultative Council (ACC), comprising the Governors of the 12 BIS member central banks in the Asia-Pacific region.[7] Governor Graeme Wheeler of the Reserve Bank of New Zealand succeeded Governor Amando Tetangco of Bangko Sentral ng Pilipinas as the Council's Chair in April 2016.

Economists in the Asian Office carried out research on two themes endorsed by the ACC. On the monetary policy side, the theme was "Expanding the boundaries of monetary policy in Asia and the Pacific". The highlights of the research findings were discussed at a conference held in Jakarta in August 2015. On the financial stability side, the theme for the 2016 research conference is "Financial systems and the real economy".

At an ACC meeting in February 2016, the Council endorsed a new research theme on exchange rates. Topics such as the effect of currency movements on output and inflation and the risk-taking channel of exchange rates will be covered.

The Asian Office organised nine high-level BIS policy meetings. Most of these were organised jointly with a central bank or with either the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) or the South East Asian Central Banks (SEACEN).

In February 2016, the ACC convened with other Governors from around the world in a meeting that combined the Special Governors' Meeting and BIS bimonthly meeting. This was held in Shanghai with the People's Bank of China as host. For the sixth consecutive year, the event included a roundtable with the chief executive officers of large financial institutions. The discussions covered issues arising from asset valuations in financial markets and the possible impact of digital technologies on the financial industry.

Other policy discussions organised by the Asian Office included the above-mentioned research conference in Jakarta; the 18th meeting of the Working Party on Monetary Policy in Asia, hosted by Bangko Sentral ng Pilipinas in May 2015 in Manila; the 10th Meeting on Monetary Policy Operating Procedures, held in June 2015 in Hong Kong; a meeting of the EMEAP-BIS Forum on Foreign Exchange Markets, held in the same month in Hong Kong; the Workshop on Financial Systems and the Real Economy, held in July 2015 in Hong Kong; the SEACEN-BIS Exco Seminar, held in October in Port Moresby; the Meeting of the EMEAP-BIS Forum on

[7] The 12 central banks are those of Australia, China, Hong Kong SAR, India, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand.

Foreign Exchange Markets, held in December 2015 in Singapore; and the Roundtable on Developing Corporate Bond Markets, held in December 2015 in Hong Kong.

BIS Asian Office: www.bis.org/about/repoffice_asia.htm

The Americas Office

The Americas Office conducts its cooperative activities under the guidance of the Consultative Council for the Americas (CCA), comprising the Governors of eight BIS member central banks in the region.[8] Stephen S Poloz, Governor of the Bank of Canada, has chaired the CCA since January 2016, succeeding José Darío Uribe, Governor of the Bank of the Republic, Colombia. The work of the Americas Office centres on three main areas: research, central bank operations and financial stability. It also engages in outreach activities.

Research activities are organised mainly through an annual research conference and research networks, under the direction of a Scientific Committee. In April 2015, the Bank of Mexico hosted the Sixth Annual CCA research conference on "Detecting vulnerabilities, monetary policy normalisation and policy frameworks" in Mexico City. The new research network on "The commodity cycle: macroeconomic and financial stability implications" held a workshop in October 2015, hosted by the Americas Office in Mexico City. The network is expected to conclude its work by the end of 2016.

The Consultative Group of Directors of Operations (CGDO) holds regular teleconferences to exchange views on financial market developments and central bank operations. At their annual meeting, hosted by the Central Reserve Bank of Peru in Lima in November 2015, the CGDO discussed derivatives markets in the region. This meeting took place back to back with that of the Working Party on Markets in Latin America, which brought together the members of the CGDO, the BIS Markets Committee and private sector participants. A new study group has been set up to analyse liquidity in forex markets in the Americas.

The Consultative Group of Directors of Financial Stability (CGDFS) deals with financial stability issues of interest to the CCA members, focusing on research. Its annual meeting took place in September 2015 in Vancouver, hosted by the Bank of Canada, where each central bank's main topics of interest were reviewed. Group members were also updated on the working group studying the effectiveness of macroprudential policies based on credit registry data. The working group held a workshop in Mexico City in August 2015, hosted by the Americas Office, and is expected to conclude its work by mid-2016.

Another activity related to financial stability was the Second Roundtable of CCA Governors and chief executive officers of large financial institutions, which was held in May 2015 in Cancún, hosted by the Bank of Mexico. The topics discussed included the challenges arising from falling commodity prices, corporate leverage, liquidity strains and the potential effects of regulation on the financial sector.

As for outreach activities, in August 2015 the Americas Office co-organised with CEMLA a roundtable in Paraguay on the changing patterns of financial intermediation. Furthermore, it organised two sessions at the Annual Meeting of LACEA (Latin American and Caribbean Economic Association), the main economic academic conference in the region.

BIS Americas Office: www.bis.org/about/repoffice_americas.htm

[8] The eight central banks are those of Argentina, Brazil, Canada, Chile, Colombia, Mexico, Peru and the United States.

Governance and management of the BIS

The governance and management of the Bank are conducted at three principal levels: the General Meeting of BIS member central banks; the BIS Board of Directors; and BIS Management.

BIS member central banks

Bank of Algeria
Central Bank of Argentina
Reserve Bank of Australia
Central Bank of the Republic of Austria
National Bank of Belgium
Central Bank of Bosnia and Herzegovina
Central Bank of Brazil
Bulgarian National Bank
Bank of Canada
Central Bank of Chile
People's Bank of China
Bank of the Republic (Colombia)
Croatian National Bank
Czech National Bank
Danmarks Nationalbank (Denmark)
Bank of Estonia
European Central Bank
Bank of Finland
Bank of France
Deutsche Bundesbank (Germany)
Bank of Greece
Hong Kong Monetary Authority
Magyar Nemzeti Bank (Hungary)
Central Bank of Iceland
Reserve Bank of India
Bank Indonesia
Central Bank of Ireland
Bank of Israel
Bank of Italy
Bank of Japan
Bank of Korea
Bank of Latvia
Bank of Lithuania
Central Bank of Luxembourg
National Bank of the Republic of Macedonia
Central Bank of Malaysia
Bank of Mexico
Netherlands Bank
Reserve Bank of New Zealand
Central Bank of Norway
Central Reserve Bank of Peru
Bangko Sentral ng Pilipinas (Philippines)
Narodowy Bank Polski (Poland)
Bank of Portugal
National Bank of Romania
Central Bank of the Russian Federation
Saudi Arabian Monetary Agency
National Bank of Serbia
Monetary Authority of Singapore
National Bank of Slovakia
Bank of Slovenia
South African Reserve Bank
Bank of Spain
Sveriges Riksbank (Sweden)
Swiss National Bank
Bank of Thailand
Central Bank of the Republic of Turkey
Central Bank of the United Arab Emirates
Bank of England
Board of Governors of the Federal Reserve System (United States)

The General Meeting of BIS member central banks

Sixty central banks and monetary authorities are currently members of the BIS and have rights of voting and representation at General Meetings. The Annual General Meeting (AGM) is held no later than four months after 31 March, the end of the BIS financial year. The AGM approves the annual report and the accounts of the Bank, decides on the distribution of a dividend and elects the Bank's auditor.

The BIS Board of Directors

The Board is responsible for determining the strategic and policy direction of the BIS, supervising Management and fulfilling the specific tasks given to it by the Bank's Statutes. The Board meets at least six times a year.

The Board may have up to 21 members, including six ex officio Directors comprising the central bank Governors of Belgium, France, Germany, Italy, the United Kingdom and the United States. Each ex officio member may appoint another member of the same nationality. Nine Governors of other member central banks may be elected to the Board.[9] The Board elects a Chairman from among its members for a three-year term and may elect a Vice-Chairman. In September 2015, the Board elected Jens Weidmann, President of the Deutsche Bundesbank, as its Chairman, to succeed Christian Noyer, Governor of the Bank of France. Two months later, Raghuram Rajan, Governor of the Reserve Bank of India, was elected as the Bank's Vice-Chairman, also with effect from November 2015.

Four advisory committees, established pursuant to Article 43 of the Bank's Statutes, assist the Board in its work:

- The Administrative Committee reviews key areas of the Bank's administration, such as budget and expenditures, human resources policies and information technology. The Committee meets at least four times a year. Its Chairman is Haruhiko Kuroda.
- The Audit Committee meets with internal and external auditors, as well as with the compliance unit. Among its duties is the examination of matters related to the Bank's internal control systems and financial reporting. The Committee meets at least four times a year and is chaired by Stephen S Poloz.
- The Banking and Risk Management Committee reviews and assesses the Bank's financial objectives, the business model for BIS banking operations and the risk management frameworks of the BIS. The Committee meets at least once a year. Its Chairman is Stefan Ingves.
- The Nomination Committee deals with the appointment of members of the BIS Executive Committee and meets on an ad hoc basis. It is chaired by the Board's Chairman, Jens Weidmann.

Board of Directors[10]

Chairman: Jens Weidmann, Frankfurt am Main
Vice-Chairman: Raghuram G Rajan, Mumbai
Mark Carney, London
Agustín Carstens, Mexico City

9 In addition, one member of the Economic Consultative Committee (see page 136) serves as an observer to BIS Board meetings on a rotating basis.

10 As at 1 June 2016. The list includes the rotating observer mentioned above.

Luc Coene, Brussels
Jon Cunliffe, London
Mario Draghi, Frankfurt am Main
William C Dudley, New York
Stefan Ingves, Stockholm
Thomas Jordan, Zurich
Klaas Knot, Amsterdam
Haruhiko Kuroda, Tokyo
Anne Le Lorier, Paris
Fabio Panetta, Rome
Stephen S Poloz, Ottawa
Jan Smets, Brussels
Alexandre A Tombini, Brasília
François Villeroy de Galhau, Paris
Ignazio Visco, Rome
Janet L Yellen, Washington
Zhou Xiaochuan, Beijing

Alternates

Andreas Dombret, Frankfurt am Main
Stanley Fischer, Washington
Jean Hilgers, Brussels
Chris Salmon, London
Marc-Olivier Strauss-Kahn, Paris
Emerico Zautzik, Rome

BIS Management

BIS Management is under the overall direction of the General Manager, who is responsible to the Board of Directors for the conduct of the Bank. The General Manager is assisted by the Deputy General Manager and advised by the Executive Committee of the BIS. The Executive Committee, chaired by the General Manager, further comprises the Deputy General Manager; the Heads of the three BIS departments – the General Secretariat, the Banking Department and the Monetary and Economic Department; the Economic Adviser and Head of Research; and the General Counsel. Other senior officials are the Deputy Heads of the departments and the Chairman of the Financial Stability Institute.

General Manager	Jaime Caruana
Deputy General Manager	Luiz Awazu Pereira da Silva
Secretary General and Head of General Secretariat	Peter Dittus
Head of Banking Department	Peter Zöllner
Head of Monetary and Economic Department	Claudio Borio
Economic Adviser and Head of Research	Hyun Song Shin
General Counsel	Diego Devos

Deputy Head of Monetary and Economic Department	Philip Turner
Deputy Secretary General	Monica Ellis
Deputy Head of Banking Department	Jean-François Rigaudy
Chairman, Financial Stability Institute	Josef Tošovský

BIS budget policy

Management begins preparing the annual BIS expenditure budget by establishing an overall business plan and financial framework. Within that context, business areas specify their detailed plans and resource requirements. The process of reconciling detailed business plans, objectives and overall resources culminates in a draft budget, which must be approved by the Board before the start of the financial year.

The budget distinguishes between administrative and capital expenditures. In 2015/16, these expenditures collectively amounted to CHF 309.7 million. The Bank's overall administrative expense amounted to CHF 285.2 million.[11] Management and staff expense – including remuneration, pensions, and health and accident insurance – amounts to around 70% of administrative expenditure, comparable to the ratio seen in organisations similar to the BIS. New staff positions were added during the year in accordance with the Bank's business plan, which emphasised mainly economic research and the Basel Process.

The other major categories of administrative spending are information technology (IT), buildings and equipment, and general operational costs, each accounting for about 10%.

Capital spending, relating mainly to buildings and IT investment, can vary significantly from year to year depending on projects in progress. For 2015/16, capital expenditure amounted to CHF 24.5 million.

BIS remuneration policy

At the end of the 2015/16 financial year, the BIS employed 632 staff members[12] from 58 countries. The jobs performed by staff members are classified into job grades associated with a structure of salary ranges. The salaries of individual staff members move within the ranges of the structure on the basis of performance.

Every three years, a comprehensive survey benchmarks BIS salaries against compensation in comparable institutions and market segments, with adjustments taking place as of 1 July in the following year. In benchmarking, the Bank focuses on the upper half of market compensation in order to attract highly qualified staff.

11 The financial statements report a total administrative expense of CHF 359.8 million. That figure consists of the CHF 285.2 million actual administrative expense reported here plus CHF 74.6 million of financial accounting adjustments for post-employment benefit obligations. This additional expense is not included in the budget for the coming financial year because it depends on actuarial valuations as at 31 March, which in turn are not finalised until April, after the budget has been set by the Board.

12 This corresponds to 602.1 full-time equivalent positions. At the end of the 2014/15 financial year, the Bank employed 623 staff members, corresponding to 600.1 full-time equivalent positions. Including positions related to hosted organisations and not funded by the Bank, the number of staff was 668 in 2014/15 and 683 in 2015/16.

The analysis takes into account the differing rates of taxation on compensation at the surveyed institutions.

In years between comprehensive salary surveys, the salary structure is adjusted as of 1 July on the basis of Switzerland's inflation rate and the weighted average real wage development in industrial countries. As of 1 July 2015, this adjustment produced an increase of 0.65% in the salary structure.

The salaries of senior officials are also regularly benchmarked against compensation in comparable institutions and market segments. As of 1 July 2015, the annual remuneration of senior officials, before expatriation allowances, is based on the salary structure of CHF 743,410 for the General Manager;[13] CHF 629,040 for the Deputy General Manager; and CHF 571,850 for Heads of Department.

BIS staff members have access to a contributory health insurance plan and a contributory defined benefit pension plan. At the Bank's headquarters, non-Swiss staff members recruited from abroad, including senior officials, are entitled to an expatriation allowance as well as an education allowance for their children, subject to certain conditions.

The Annual General Meeting approves the remuneration of members of the Board of Directors, with adjustments taking place at regular intervals. The total fixed annual remuneration paid to the Board of Directors was CHF 1,143,784 as of 1 April 2016. In addition, Board members receive an attendance fee for each Board meeting in which they participate. Assuming that the full Board is represented in all Board meetings, the annual total of these attendance fees amounts to CHF 1,065,120.

Financial activities and results

The Bank's balance sheet

The Bank's balance sheet increased by SDR 14.5 billion over the year, following a decrease of SDR 5.7 billion in 2014/15. The balance sheet total on 31 March 2016 was SDR 231.4 billion.

Deposits, primarily from central banks, constitute the largest share of the Bank's liabilities. About 95% of the deposits are denominated in currencies, with the remainder in gold. On 31 March 2016, total deposits amounted to SDR 189.0 billion, compared with SDR 186.7 billion at the end of March 2015.

Currency deposits at 31 March 2016 stood at SDR 178.8 billion, which was SDR 1.9 billion higher than at the previous year-end. Notwithstanding this increase, deposits held during 2015/16 were on average SDR 14 billion lower than in the previous financial year. The currency composition of deposits remained stable, with deposits in US dollars at 76%, in euros at 12% and in sterling at 7%. Gold deposits stood at SDR 10.2 billion on 31 March 2016, an increase of SDR 370 million over the financial year.

Funds received from deposit liabilities are invested in assets that are managed in a conservative manner. At 31 March 2016, 52% of total assets comprised government and other securities or treasury bills. Reverse repurchase agreements (primarily with commercial banks using sovereign bonds as collateral) made up a further 24%, with unsecured commercial bank assets and gold accounting for 9% and 5%, respectively. The gold balances include 104 tonnes in the Bank's own investment portfolio.

13 In addition to the basic salary, the General Manager receives an annual representation allowance and enhanced pension rights.

Financial performance

Operating profit

The BIS's financial results for 2015/16 were shaped by continuing low interest rates together with higher volatility in key financial markets. This environment led to lower interest income on the Bank's own fund investment assets, and while the net interest margin on the customer banking business improved, this was on a lower level of deposits and in a more volatile environment. As a result, overall net interest and valuation income decreased by 20% to SDR 525.9 million.

The Bank recorded a foreign exchange loss of SDR 1.2 million, compared with a gain in the previous financial year of SDR 38.8 million, while net fee and commission income was relatively stable at SDR 5.1 million. The Bank's administrative expense, which is denominated mainly in Swiss francs, amounted to CHF 359.8 million, 1.0% higher than in the previous year. In SDR terms, however, the expenditure was 2.7% higher, at SDR 265.4 million, owing to the Swiss franc's appreciation. Depreciation was SDR 15.5 million, bringing the total operating expense for 2015/16 to SDR 280.9 million.

As a result of these developments, the operating profit, at SDR 248.9 million, was 41% lower than last year.

Net profit and total comprehensive income

Net profit comprises operating profit plus the realised gains, or losses, from sales of gold and securities held in the Bank's own fund portfolios. During the year, the Bank sold 4 tonnes of its own gold, realising a gain of SDR 84.3 million. In addition, the Bank's own funds securities portfolio produced realised gains of SDR 79.7 million when securities were sold as part of the regular rebalancing to benchmarks. As a result, net profit for 2015/16 was SDR 412.9 million (2014/15: SDR 542.9 million), representing a return of 2.3% on average equity (2014/15: 3.0%).

Other comprehensive income includes unrealised valuation movements on the Bank's own gold and investment securities as well as re-measurements of the actuarial liabilities for post-employment benefit obligations. The valuation of the Bank's own gold decreased by SDR 36.4 million following the sale of 4 tonnes, partly offset by a 1.9% increase in the SDR gold price. In addition, the Bank recorded a revaluation gain of SDR 16.8 million on its investment securities, reflecting marginally lower interest rates. There was a loss on the re-measurement of defined benefit obligations of SDR 162.2 million. As a result, total comprehensive income, which combines net profit and other comprehensive income, was SDR 231.1 million for 2015/16.

Allocation and distribution of profit

Proposed dividend

Consistent with the BIS's dividend policy, it is proposed to declare a dividend of SDR 215 per share for the financial year 2015/16. The dividend is payable on 558,125 shares, and will result in a total payment of SDR 120.0 million. After payment of the dividend, SDR 292.9 million would be available for allocation to reserves.

Proposed allocation of net profit for 2015/16

In accordance with Article 51 of the BIS Statutes, the Board of Directors recommends that the General Meeting allocate the 2015/16 net profit of SDR 412.9 million in the following manner:

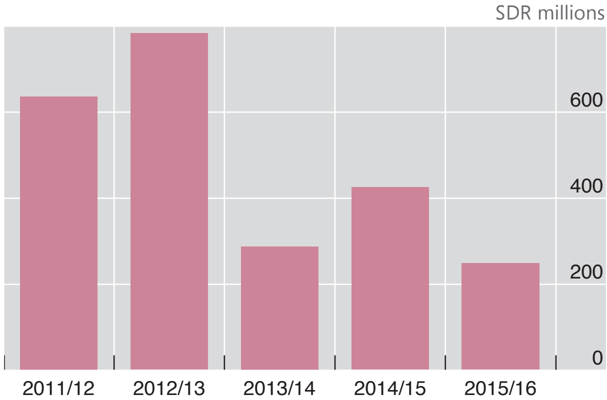
(a) SDR 120.0 million to be paid as a dividend of SDR 215 per share;

(b) SDR 14.6 million to be transferred to the general reserve fund; and

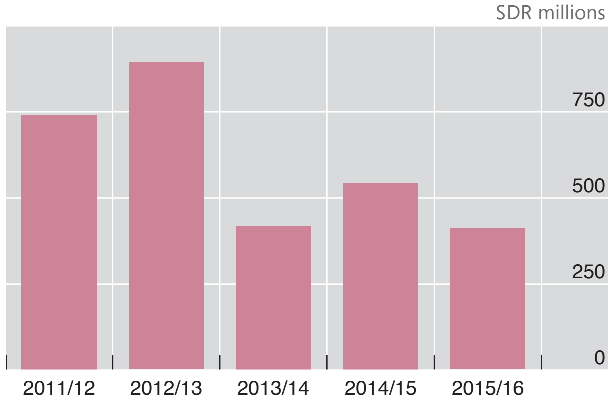
(c) SDR 278.3 million, representing the remainder of the available profit, to be transferred to the free reserve fund.

Five-year graphical summary

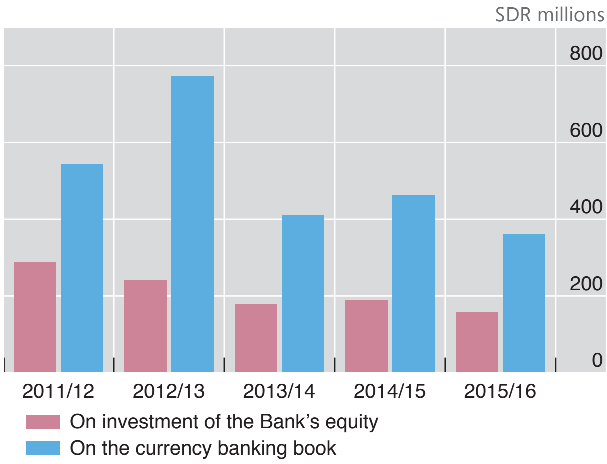
Operating profit



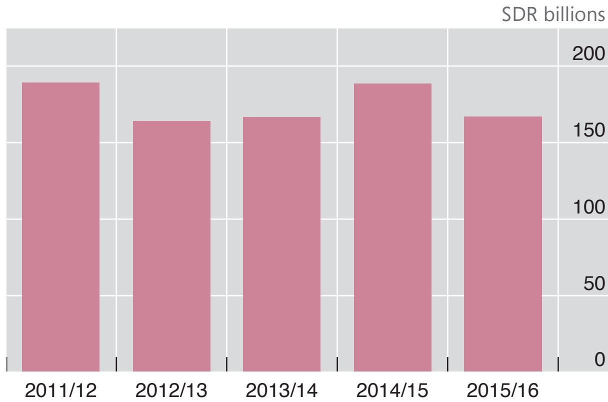
Net profit



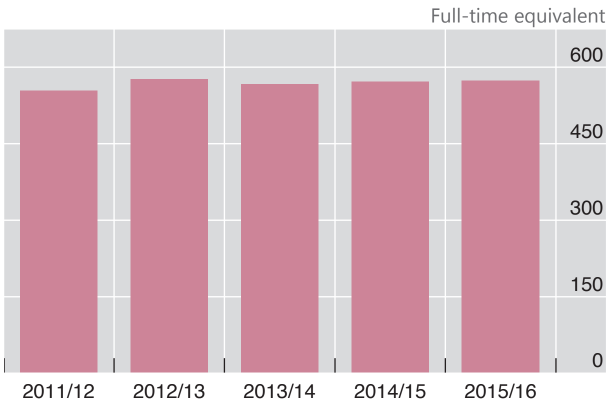
Net interest and valuation income



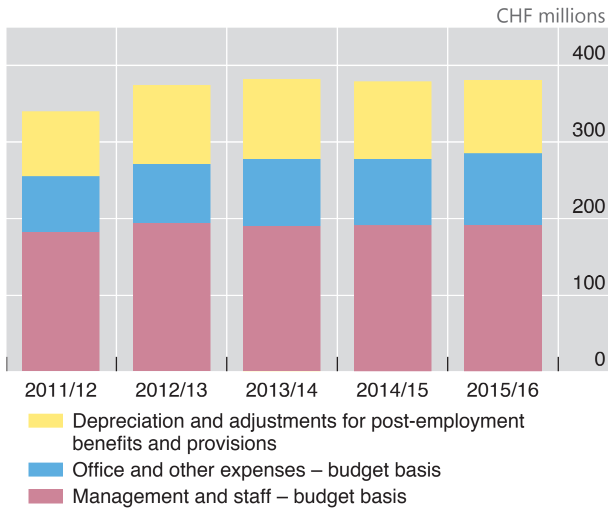
Average currency deposits (settlement date basis)



Average number of employees



Operating expense



Independent auditor

Election of the auditor

In accordance with Article 46 of the BIS Statutes, the Annual General Meeting is invited to elect an independent auditor for the ensuing year and to fix the auditor's remuneration. The Board policy is to rotate the auditor on a regular basis. The financial year ended 31 March 2016 was the fourth consecutive year of Ernst & Young's term as auditor.

Report of the auditor

The BIS financial statements for the year ended 31 March 2016 have been audited by Ernst & Young, who confirm that they give a true and fair view of the Bank's financial position and of its financial performance and its cash flows for the year then ended. The audit report can be found on page 246.

Financial statements

as at 31 March 2016

The financial statements on pages 177–245 for the financial year ended 31 March 2016 were approved on 9 May 2016 for presentation to the Annual General Meeting on 26 June 2016. They are presented in a form approved by the Board of Directors pursuant to Article 49 of the Bank's Statutes and are subject to approval by the shareholders at the Annual General Meeting.

Jaime Caruana General Manager	Luiz Awazu Pereira da Silva Deputy General Manager

Balance sheet

As at 31 March

SDR millions	Note	**2016**	2015
Assets			
Cash and sight accounts	1	25,847.0	11,375.3
Gold and gold loans	2	13,176.8	14,155.5
Treasury bills	3	39,578.6	33,926.0
Securities purchased under resale agreements	3	56,218.6	49,003.6
Loans and advances	3	17,337.4	17,966.2
Government and other securities	3	67,128.4	80,910.2
Derivative financial instruments	4	1,685.3	6,958.7
Accounts receivable and other assets	5	10,215.9	2,345.4
Land, buildings and equipment	6	196.4	194.1
Total assets		**231,384.4**	216,835.0
Liabilities			
Gold deposits	7	10,227.6	9,857.3
Currency deposits	8	178,790.5	176,842.0
Securities sold under repurchase agreements	9	1,447.7	773.3
Derivative financial instruments	4	3,902.2	2,162.2
Accounts payable	10	17,548.8	8,049.9
Other liabilities	11	1,089.0	877.2
Total liabilities		**213,005.8**	198,561.9
Shareholders' equity			
Share capital	13	698.9	698.9
Less: shares held in treasury	13	(1.7)	(1.7)
Statutory reserves	14	14,997.0	14,579.7
Profit and loss account		412.9	542.9
Other equity accounts	15	2,271.5	2,453.3
Total equity		**18,378.6**	18,273.1
Total liabilities and equity		**231,384.4**	216,835.0

Profit and loss account

For the financial year ended 31 March

SDR millions	Note	**2016**	2015
Interest income	16	1,804.1	1,568.3
Interest expense	17	(975.3)	(815.2)
Net interest income		**828.8**	753.1
Net valuation movement	18	(302.9)	(97.8)
Net interest and valuation income		**525.9**	655.3
Net fee and commission income	19	5.1	5.8
Net foreign exchange movement	20	(1.2)	38.8
Total operating income		**529.8**	699.9
Operating expense	21	(280.9)	(274.6)
Operating profit		**248.9**	425.3
Net gain on sales of available for sale securities	22	79.7	52.0
Net gain on sales of gold investment assets	23	84.3	65.6
Net profit		**412.9**	542.9

Statement of comprehensive income

For the financial year ended 31 March

SDR millions	Note	**2016**	2015
Net profit		**412.9**	542.9
Other comprehensive income			
Items either reclassified to profit and loss during the year, or that will be reclassified subsequently when specific conditions are met			
Net movement on revaluation of available for sale securities	15A	16.8	102.5
Net movement on revaluation of gold investment assets	15B	(36.4)	29.9
Items that will not be reclassified subsequently to profit and loss			
Re-measurement of defined benefit obligations	15C	(162.2)	(10.1)
		(181.8)	122.3
Total comprehensive income		**231.1**	665.2

Statement of cash flows

For the financial year ended 31 March

SDR millions	Note	**2016**	2015
Cash flow from / (used in) operating activities			
Interest and similar income received		2,154.9	2,178.3
Interest and similar expenses paid		(581.1)	(595.9)
Net fee and commission income	19	5.1	5.8
Net foreign exchange transaction gain	20	13.9	7.1
Operating expenses	21	(265.4)	(258.4)
Non-cash flow items included in operating profit			
Valuation movements on operating assets and liabilities	18	(302.9)	(97.8)
Net foreign exchange translation movements	20	(15.1)	31.7
Change in accruals and amortisation		(745.1)	(829.3)
Change in operating assets and liabilities			
Currency deposit liabilities held at fair value through profit and loss		(7,678.9)	(7,234.7)
Currency banking assets		8,860.3	3,980.9
Sight and notice deposit account liabilities		4,221.9	2,987.1
Gold deposits		370.3	(1,440.2)
Gold and gold loans		925.1	6,457.3
Accounts receivable		(4.3)	0.8
Accounts payable and other liabilities		30.7	(162.5)
Net derivative financial instruments		7,013.4	(4,427.2)
Net cash flow from operating activities		**14,002.8**	603.0
Cash flow from / (used in) investment activities			
Net change in currency investment assets available for sale		611.7	(365.8)
Securities sold under repurchase agreements		(97.7)	177.4
Net change in gold investment assets		101.6	79.0
Net purchase of land, buildings and equipment	6	(17.9)	(14.1)
Net cash flow from / (used in) investment activities		**597.7**	(123.5)

SDR millions	Note	**2016**	2015
Cash flow from / (used in) financing activities			
Dividends paid		(125.6)	(120.0)
Net cash flow used in financing activities		**(125.6)**	(120.0)
Total net cash flow		**14,474.9**	359.5
Net effect of exchange rate changes on cash and cash equivalents		69.7	(136.5)
Net movement in cash and cash equivalents		14,405.2	496.0
Net change in cash and cash equivalents		**14,474.9**	359.5
Cash and cash equivalents, beginning of year	1	**11,904.0**	11,544.5
Cash and cash equivalents, end of year	1	**26,378.9**	11,904.0

Movements in the Bank's equity

SDR millions	Note	Share capital	Shares held in treasury	Statutory reserves	Profit and loss	Other equity accounts: Defined benefit obligations	Other equity accounts: Gold and securities revaluation	Movement in total equity
Balance as at 31 March 2014		**698.9**	**(1.7)**	**14,280.4**	**419.3**	**(238.9)**	**2,569.9**	**17,727.9**
Payment of 2013/14 dividend		–	–	–	(120.0)	–	–	(120.0)
Allocation of 2013/14 profit		–	–	299.3	(299.3)	–	–	–
Total comprehensive income	15	–	–	–	542.9	(10.1)	132.4	665.2
Balance as at 31 March 2015		**698.9**	**(1.7)**	**14,579.7**	**542.9**	**(249.0)**	**2,702.3**	**18,273.1**
Payment of 2014/15 dividend		–	–	–	(125.6)	–	–	(125.6)
Allocation of 2014/15 profit		–	–	417.3	(417.3)	–	–	–
Total comprehensive income	15	–	–	–	412.9	(162.2)	(19.6)	231.1
Balance as at 31 March 2016		**698.9**	**(1.7)**	**14,997.0**	**412.9**	**(411.2)**	**2,682.7**	**18,378.6**

Introduction

The Bank for International Settlements (BIS, "the Bank") is an international financial institution which was established pursuant to the Hague Agreements of 20 January 1930 as well as the Bank's Constituent Charter and its Statutes.

The headquarters of the Bank are at Centralbahnplatz 2, 4002 Basel, Switzerland. The Bank maintains representative offices in Hong Kong, Special Administrative Region of the People's Republic of China (for Asia and the Pacific), and in Mexico City, Mexico (for the Americas).

The objectives of the BIS, as laid down in Article 3 of its Statutes, are to promote cooperation among central banks, to provide additional facilities for international financial operations and to act as trustee or agent for international financial settlements. In the course of its activities, the Bank accepts deposits from customers, which it then invests. The Bank also invests its own equity.

Sixty central banks are currently members of the Bank. The governance and management of the BIS are discussed in "The BIS: mission, activities, governance and financial results" in this Annual Report.

Accounting policies

The accounting policies set out below have been applied to both of the financial years presented unless otherwise stated.

1. Scope of the financial statements

These financial statements recognise all assets and liabilities that are controlled by the Bank and in respect of which the economic benefits, as well as any rights and obligations, lie with the Bank.

As part of its activities, the BIS undertakes financial transactions in its own name but for the economic benefit of other parties. These include transactions on a custodial or agency basis, such as those undertaken on behalf of investment entities operated by the Bank and on behalf of the staff pension fund, which do not have separate legal personality from the BIS. Unless otherwise stated, such transactions are not included in these financial statements.

The preparation of the financial statements requires the Bank's Management to make assumptions and use estimates to arrive at reported amounts. In doing so, Management exercises judgment based on reliable information. Actual results could differ significantly from these estimates.

The notes to the financial statements containing the areas of estimation uncertainty considered to require critical judgment and which have the most significant effect on the amounts recognised in the financial statements are: note 12, "Post-employment benefit obligations"; note 28, "Fair value hierarchy"; and note 31, "Contingent liabilities".

All figures in these financial statements are presented in SDR millions unless otherwise stated. Amounts are subject to rounding and consequently there may be small differences both within and between disclosures.

2. Functional and presentation currency

The functional and presentation currency of the Bank is the Special Drawing Right (SDR) as defined by the International Monetary Fund (IMF).

As currently calculated, one SDR is equivalent to the sum of USD 0.660, EUR 0.423, JPY 12.1 and GBP 0.111. The composition of the SDR is subject to periodic review and following a review by the IMF during 2015, changes will be made to the SDR basket effective from 1 October 2016, including the addition of the Chinese renminbi to the basket.

Monetary assets and liabilities are translated into SDR at the exchange rates ruling at the balance sheet date. Other assets and liabilities and profits and losses are translated into SDR at the exchange rates ruling at the date of the transaction. Exchange differences arising from the retranslation of monetary assets and liabilities and from the settlement of transactions are included as net foreign exchange gains or losses in the profit and loss account.

3. Presentation of interest

In the profit and loss account, interest income includes "negative" interest on liabilities while interest expense includes "negative" interest on assets. Interest on derivatives is presented as interest income. Notes to the financial statements separately analyse components of interest income and interest expense. The presentation of prior year items has been amended to reflect this practice.

4. Designation of financial instruments

Upon initial recognition, the Bank allocates each financial instrument to one of the following categories:

- Loans and receivables
- Financial assets and financial liabilities held at fair value through profit and loss
- Available for sale financial assets
- Financial liabilities measured at amortised cost

The allocation to these categories is dependent on the nature of the financial instrument and the purpose for which it was entered into, as described in Section 5 below.

The resulting designation of each financial instrument determines the accounting methodology that is applied, as described in the accounting policies below. Where the financial instrument is designated as held at fair value through profit and loss, the Bank does not subsequently change this designation.

5. Asset and liability structure

Assets and liabilities are organised into two sets of portfolios:

A. Banking portfolios

These comprise currency and gold deposit liabilities and related banking assets and derivatives.

The Bank operates a banking business in currency and gold on behalf of its customers. In this business, the Bank is exposed to credit and market risks. The extent of these exposures is limited by the Bank's risk management approach.

The Bank designates all currency financial instruments in its banking portfolios (other than cash and sight and notice accounts with banks, and sight and notice deposit account liabilities) as held at fair value through profit and loss. The use of fair values in the currency banking portfolios is described in Section 9 below.

All gold financial assets in these portfolios are designated as loans and receivables and all gold financial liabilities are designated as financial liabilities measured at amortised cost.

B. Investment portfolios

These comprise assets, liabilities and derivatives relating principally to the investment of the Bank's equity.

The Bank holds most of its equity in financial instruments denominated in the constituent currencies of the SDR, which are managed by comparison to a fixed duration benchmark of bonds.

Currency assets in investment portfolios, with the exception of cash and notice accounts (Sections 6 and 7 below) and those in more actively traded portfolios, are designated as available for sale.

The currency investment assets maintained in more actively traded portfolios are trading assets and as such are designated as held at fair value through profit and loss.

The remainder of the Bank's equity is held in gold. The Bank's own gold holdings are designated as available for sale.

6. Cash and sight accounts

Cash and sight accounts are included in the balance sheet at their principal value plus accrued interest where applicable.

7. Notice accounts

Notice accounts are short-term monetary assets, including balances at futures clearing brokers. These typically have notice periods of three days or less and are included under the balance sheet heading "Loans and advances". They are considered cash equivalents for the purposes of the statement of cash flows.

Due to their short-term nature, these financial instruments are designated as loans and receivables. They are included in the balance sheet at their principal value plus accrued interest. Interest is included in interest income on an accruals basis.

8. Sight and notice deposit account liabilities

Sight and notice deposit accounts are short-term monetary liabilities. They typically have notice periods of three days or less and are included under the balance sheet heading "Currency deposits".

Due to their short-term nature, these financial instruments are designated as financial liabilities measured at amortised cost. They are included in the balance sheet at their principal value plus accrued interest. Interest is included in interest expense on an accruals basis.

9. Use of fair values in the currency banking portfolios

In operating its currency banking business, the Bank acts as a market-maker in certain of its currency deposit liabilities. As a result of this activity, the Bank incurs realised profits and losses on these liabilities.

In accordance with the Bank's risk management policies, the market risk inherent in this activity is managed on an overall fair value basis, combining all the relevant assets, liabilities and derivatives in its currency banking portfolios. The realised and unrealised profits or losses on currency deposit liabilities are thus largely offset by realised and unrealised losses or profits on the related currency banking assets and derivatives, or on other currency deposit liabilities.

To reduce the accounting inconsistency that would otherwise arise from recognising realised and unrealised gains and losses on different bases, the Bank designates the relevant assets, liabilities and derivatives in its currency banking portfolios as held at fair value through profit and loss.

10. Securities purchased under resale agreements

Securities purchased under resale agreements ("reverse repurchase agreements") are recognised as collateralised loan transactions by which the Bank lends cash and receives an irrevocable commitment from the counterparty to return the cash, plus interest, at a specified date in the future. As part of these agreements, the Bank receives collateral in the form of securities to which it has full legal title, but must return equivalent securities to the counterparty at the end of the agreement, subject to the counterparty's repayment of the cash. As the Bank does not acquire the risks or rewards associated with ownership of these collateral securities, they are not recognised as assets in the Bank's balance sheet.

The collateralised loans relating to securities purchased under resale agreements are currency assets. The accounting treatment is determined by whether the transaction involves currency assets held at fair value through profit and loss (Section 11 below) or currency investment assets available for sale (Section 13 below).

11. Currency assets held at fair value through profit and loss

Currency assets include treasury bills, securities purchased under resale agreements, loans and advances, and government and other securities.

As described in Section 9 above, the Bank designates all of the relevant assets in its currency banking portfolios as held at fair value through profit and loss. These currency assets are initially included in the balance sheet on a trade date basis. The accrual of interest and amortisation of premiums paid and discounts received are included in the profit and loss account under "Interest income" on an effective interest rate basis. After initial measurement, the currency assets are revalued to fair value, with all realised and unrealised movements in fair value included under "Net valuation movement".

12. Currency deposit liabilities held at fair value through profit and loss

All currency deposit liabilities, with the exception of sight and notice deposit account liabilities, are designated as held at fair value through profit and loss.

These currency deposit liabilities are initially included in the balance sheet on a trade date basis. The accrual of interest to be paid and amortisation of premiums received and discounts paid are included under the profit and loss account heading "Interest expense" on an effective interest rate basis.

After initial measurement, the currency deposit liabilities are revalued to fair value, with all realised and unrealised movements in fair value included under "Net valuation movement".

13. Currency investment assets available for sale

Currency assets include treasury bills, securities purchased under resale agreements, loans and advances, and government and other securities.

The Bank designates as available for sale all of the relevant assets in its currency investment portfolios, except for those assets in the Bank's more actively traded investment portfolios.

Available for sale investment assets are initially included in the balance sheet on a trade date basis. The accrual of interest and amortisation of premiums paid and discounts received are included in the profit and loss account under "Interest income" on an effective interest rate basis.

After trade date, the currency investment assets are revalued to fair value, with unrealised movements included in the securities revaluation account, which is reported under the balance sheet heading "Other equity accounts". The movement in fair value is included in the statement of comprehensive income under the heading "Net movement on revaluation of available for sale securities". Realised profits on disposal are included in the profit and loss account under "Net gain on sales of available for sale securities".

14. Short positions in currency assets

Short positions in currency assets are included in the balance sheet under the heading "Other liabilities" at fair value on a trade date basis.

15. Gold

Gold comprises gold bar assets held in custody at central banks and sight accounts denominated in gold. Gold is considered by the Bank to be a financial instrument.

Gold is included in the balance sheet at its weight in gold (translated at the gold market price and USD exchange rate into SDR). Purchases and sales of gold are accounted for on a settlement date basis. Forward purchases or sales of gold are treated as derivatives prior to the settlement date.

The treatment of realised and unrealised gains or losses on gold is described in Section 17 below.

16. Gold loans

Gold loans comprise fixed-term gold loans. Gold loans are included in the balance sheet on a trade date basis at their weight in gold (translated at the gold market price and USD exchange rate into SDR) plus accrued interest.

Accrued interest on gold loans is included in the profit and loss account under "Interest income" on an effective interest rate basis.

17. Realised and unrealised gains or losses on gold

The treatment of realised and unrealised gains or losses on gold depends on the designation as described below:

A. Banking portfolios, comprising gold deposits and related gold banking assets

The Bank designates gold loans in its banking portfolios as loans and receivables and gold deposits as financial liabilities measured at amortised cost. The gold derivatives included in the portfolios are designated as held at fair value through profit and loss.

Gains or losses on derivative transactions in gold are included in the profit and loss account under "Net foreign exchange movement" as net transaction gains or losses.

Gains or losses on the retranslation of the net position in gold in the banking portfolios are included under "Net foreign exchange movement" as net translation gains or losses.

B. Investment portfolios, comprising gold investment assets

The Bank's own holdings of gold are designated and accounted for as available for sale assets.

Unrealised gains or losses on the Bank's gold investment assets over their deemed cost are taken to the gold revaluation account in equity, which is reported under the balance sheet heading "Other equity accounts". The movement in fair value is included in the statement of comprehensive income under the heading "Net movement on revaluation of gold investment assets".

For gold investment assets held on 31 March 2003 (when the Bank changed its functional and presentation currency from the gold franc to the SDR) the deemed cost is approximately SDR 151 per ounce, based on the value of USD 208 per ounce that was applied from 1979 to 2003 following a decision by the Bank's Board of Directors, translated at the 31 March 2003 exchange rate.

Realised gains or losses on disposal of gold investment assets are included in the profit and loss account as "Net gain on sales of gold investment assets".

18. Gold deposits

Gold deposits comprise unallocated sight and fixed-term deposits of gold from central banks.

Unallocated gold deposits provide customers with a general claim on the Bank for delivery of gold of the same weight and quality as that delivered by the customer to the Bank, but do not provide the right to specific gold bars. Unallocated gold deposits are included in the balance sheet on a trade date basis at their weight in gold (translated at the gold market price and USD exchange rate into SDR) plus accrued interest. Accrued interest on gold deposits is included in the profit and loss account under "Interest expense" on an effective interest rate basis.

Allocated (or "earmarked") gold deposits provide depositors with a claim for delivery of the specific gold bars deposited by the customer with the Bank on a custody basis. Beneficial ownership and risk remain with the customer. As such, allocated gold deposit liabilities and the related gold bar assets are not included on the Bank's balance sheet. They are disclosed as off-balance sheet items (see note 26).

19. Securities sold under repurchase agreements

Securities sold under repurchase agreements ("repurchase agreements") are recognised as collateralised deposit transactions by which the Bank receives cash and provides an irrevocable commitment to return the cash, plus interest, at a specified date in the future. As part of these agreements, the BIS transfers legal title of collateral securities to the counterparty. At the end of the contract the counterparty must return equivalent securities to the Bank, subject to the Bank's repayment of the cash. Because the BIS retains the risks and rewards associated with ownership of these securities, they continue to be recognised as assets in the Bank's balance sheet.

Where the repurchase agreement is associated with currency assets available for sale, the collateralised deposit transaction is designated as a financial liability measured at amortised cost.

Where the repurchase agreement is associated with the management of currency assets held at fair value through profit and loss, the collateralised deposit transaction is designated as a financial instrument held at fair value through profit and loss.

The collateralised deposits relating to securities sold under repurchase agreements are initially included in the balance sheet on a trade date basis. The accrual of interest is included in the profit and loss account under "Interest expense" on an effective interest rate basis. After initial measurement, the transactions designated as held at fair value through profit and loss are revalued to fair value with all unrealised movements in fair value included under "Net valuation movement".

20. Derivatives

Derivatives are used either to manage the Bank's market risk or for trading purposes. They are designated as financial instruments held at fair value through profit and loss.

Derivatives are initially included in the balance sheet on a trade date basis. Where applicable, the accrual of interest and amortisation of premiums and discounts are included in the profit and loss account under "Interest income" on an effective interest rate basis.

After trade date, derivatives are revalued to fair value, with all realised and unrealised movements in value included under "Net valuation movement".

Derivatives are included as either assets or liabilities, depending on whether the contract has a positive or a negative fair value for the Bank.

Where a derivative contract is embedded within a host contract which is not accounted for as held at fair value through profit and loss, it is separated from the host contract for accounting purposes and treated as though it were a standalone derivative as described above.

21. Valuation policy

The Bank's designation of each financial instrument determines their valuation basis and accounting treatment. The majority of the financial instruments on the balance sheet are included at fair value. The BIS defines fair value as the exit price of an orderly transaction between market participants on the measurement date.

The Bank considers published price quotations in active markets as the best evidence of fair value. Where no published price quotations exist, the BIS determines fair values using a valuation technique appropriate to the particular financial instrument. Such valuation techniques may involve using market prices of recent arm's length market transactions in similar instruments or may make use of financial models. Where financial models are used, the Bank aims at making maximum use of observable market inputs as appropriate, and relies as little as possible on its own estimates. Such valuation models comprise discounted cash flow analyses and option pricing models.

The Bank values its positions at their exit price, so that assets are valued at the bid price and liabilities at the offer price. Derivative financial instruments are valued on a bid-offer basis, with valuation reserves, where necessary, included in derivative financial liabilities. Financial assets and liabilities that are not valued at fair value are included in the balance sheet at amortised cost.

22. Impairment of financial assets

Financial assets, other than those designated as held at fair value through profit and loss, are assessed for indications of impairment at each balance sheet date. A financial asset is impaired when there is objective evidence that the estimated future cash flows of the asset have been reduced as a result of one or more events that occurred after the initial recognition of the asset. Evidence of impairment could include significant financial difficulty, default or probable bankruptcy / financial reorganisation of the counterparty or issuer.

Impairment losses are recognised to the extent that a decline in fair value below amortised cost is considered significant or prolonged. Impairment of currency assets is included in the profit and loss account under "Net valuation movement", with impairment of gold loans included under "Interest income". If the amount of the impairment loss decreases in a subsequent period, the previously recognised impairment loss is reversed through profit and loss to the extent that the carrying amount of the investment does not exceed that which it would have been had the impairment not been recognised.

23. Accounts receivable and accounts payable

Accounts receivable and accounts payable are principally very short-term amounts relating to the settlement of financial transactions. They are initially recognised at fair value and subsequently included in the balance sheet at amortised cost.

24. Land, buildings and equipment

The cost of the Bank's buildings and equipment is capitalised and depreciated on a straight line basis over the estimated useful lives of the assets concerned, as follows:

- Buildings – 50 years
- Building installations and machinery – 15 years
- Information technology equipment – up to 4 years
- Other equipment – 4 to 10 years

The Bank's land is not depreciated. The Bank undertakes an annual review of impairment of land, buildings and equipment. Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down to the lower value.

25. Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of events arising before the balance sheet date and it is probable that economic resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Best estimates and assumptions are used when determining the amount to be recognised as a provision.

26. Taxation

The Bank's special legal status in Switzerland is set out principally in its Headquarters Agreement with the Swiss Federal Council. Under the terms of this document the Bank is exempted from virtually all direct and indirect taxes at both federal and local government level in Switzerland.

Similar agreements exist with the government of the People's Republic of China for the Asian Office in Hong Kong SAR and with the Mexican government for the Americas Office.

However, some income and gains received by the Bank may be subject to tax imposed in the country of origin. Such income and gains are recognised on a gross basis with the corresponding tax recognised as an expense.

27. Post-employment benefit obligations

The Bank operates three post-employment benefit arrangements, respectively, for staff pensions, Directors' pensions, and health and accident insurance for current and former staff members. An independent actuarial valuation is performed annually for each arrangement.

A. Staff pensions

The Bank provides a final salary defined benefit pension arrangement for its staff, based on a fund without a separate legal personality from the BIS, out of which benefits are paid. The fund assets are administered by the Bank for the sole benefit of current and former members of staff who participate in the arrangement. The Bank remains ultimately liable for all benefits due under the arrangement.

The liability in respect of the staff pension fund is based on the present value of the defined benefit obligation less the fair value of the fund assets, both at the balance sheet date. The defined benefit obligation is calculated using the projected unit credit method. The present value of the defined benefit obligation is determined from the estimated future cash outflows. The rate used to discount the cash flows is determined by the Bank based on the market yield of highly rated corporate debt securities in Swiss francs which have terms to maturity approximating the terms of the related liability.

The amount charged to the profit and loss account represents the sum of the current service cost of the benefits accruing for the year under the scheme, and interest at the discount rate on the net of the defined benefit obligation less the fair value of the fund assets. Past service costs from plan amendments are immediately recognised through profit or loss. Gains and losses arising from re-measurement of the obligations, such as experience adjustments (where the actual outcome is different from the actuarial assumptions previously made) and changes in actuarial assumptions are charged to other comprehensive income in the year in which the re-measurement is applied. They are not subsequently included in profit and loss in future years.

B. Directors' pensions

The Bank provides an unfunded defined benefit arrangement for Directors' pensions. The liability, defined benefit obligation and amount charged to the profit and loss account in respect of the Directors' pension arrangement are calculated on a similar basis to that used for the staff pension fund.

C. Post-employment health and accident benefits

The Bank provides an unfunded post-employment health and accident benefit arrangement for its staff. The liability, benefit obligation and amount charged to the profit and loss account in respect of the health and accident benefit arrangement are calculated on a similar basis to that used for the staff pension fund.

28. Statement of cash flows

The Bank's statement of cash flows is prepared using an indirect method. It is based on the movements in the Bank's balance sheet, adjusted for changes in financial transactions awaiting settlement.

Cash and cash equivalents consist of cash and sight and notice accounts with banks, which are very short-term financial assets that typically have notice periods of three days or less.

Notes to the financial statements

1. Cash and sight accounts

The Bank holds cash and sight accounts predominantly with central banks. Cash and cash equivalents as shown in the statement of cash flows comprise cash and sight accounts as well as notice accounts, which are disclosed under "Loans and advances". The balances are analysed in the table below:

As at 31 March

SDR millions	**2016**	2015
Balance at central banks	25,729.9	11,333.9
Balance at commercial banks	117.1	41.4
Total cash and sight accounts	**25,847.0**	11,375.3
Notice accounts	531.9	528.7
Total cash and cash equivalents	**26,378.9**	11,904.0

2. Gold and gold loans

The composition of the Bank's gold holdings was as follows:

As at 31 March

SDR millions	**2016**	2015
Gold	9,834.8	12,639.9
Gold loans	3,342.0	1,515.6
Total gold and gold loan assets	**13,176.8**	14,155.5
Comprising:		
Gold investment assets	2,944.6	2,998.3
Gold banking assets	10,232.2	11,157.2

3. Currency assets

Currency assets comprise the following products:

Treasury bills are short-term debt securities issued by governments on a discount basis.

Securities purchased under resale agreements ("reverse repurchase agreements") are recognised as collateralised loan transactions. Interest receivable on the transaction is fixed at the start of the agreement. During the term of the agreement the Bank monitors the fair value of the loan and related collateral securities, and may call for additional collateral (or be required to return collateral) based on movements in market value.

Loans and advances comprise fixed-term loans to commercial banks, advances and notice accounts. Advances relate to committed and uncommitted standby facilities which the Bank provides for its customers. Notice accounts are very short-term financial assets, typically having a notice period of three days or less.

Government and other securities are debt securities issued by governments, international institutions, other public sector institutions, commercial banks and corporates. They include commercial paper, certificates of deposit, fixed and floating rate bonds, covered bonds and asset-backed securities.

The tables below analyse the Bank's holdings of currency assets:

As at 31 March 2016

SDR millions	Fair value through profit and loss	Available for sale	Amortised cost	Total
Treasury bills	**39,578.6**	**–**	**–**	**39,578.6**
Securities purchased under resale agreements	**55,340.0**	**878.6**	**–**	**56,218.6**
Loans and advances	**16,805.5**	**–**	**531.9**	**17,337.4**
Government and other securities				
Government	29,582.1	13,985.6	–	43,567.7
Financial institutions	10,966.0	692.2	–	11,658.2
Other	11,776.8	125.7	–	11,902.5
	52,324.9	**14,803.5**	**–**	**67,128.4**
Balance at end of year	**164,049.0**	**15,682.1**	**531.9**	**180,263.0**

As at 31 March 2015

SDR million	Fair value through profit and loss	Available for sale	Amortised cost	Total
Treasury bills	33,926.0	–	–	33,926.0
Securities purchased under resale agreements	48,230.3	773.3	–	49,003.6
Loans and advances	17,437.5	–	528.7	17,966.2
Government and other securities				
Government	39,065.7	14,959.8	–	54,025.5
Financial institutions	13,641.2	197.3	–	13,838.5
Other	13,009.9	36.3	–	13,046.2
	65,716.8	15,193.4	–	80,910.2
Balance at end of year	165,310.6	15,966.7	528.7	181,806.0

Note 15A provides further analysis of the securities revaluation account. Note 22 provides further analysis of the net gain on sales of securities available for sale.

4. Derivative financial instruments

The main types of derivative instruments used by the Bank for economic hedging and trading purposes are:

Interest rate and bond futures are contractual agreements to receive or pay a net amount based on changes in interest rates or bond prices at a future date. Futures contracts are settled daily with the exchange. Associated margin payments are settled by cash or marketable securities.

Currency and gold options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, to either buy (call option) or sell (put option), by or on a set date, a specific amount of a currency or gold at a predetermined price. In consideration, the seller receives a premium from the purchaser.

Currency and gold swaps, cross-currency swaps and interest rate swaps are bilateral contractual agreements to exchange cash flows related to currencies, gold or interest rates (for example, fixed rate for floating rate). Cross-currency interest rate swaps involve the exchange of cash flows related to a combination of interest rates and foreign exchange rates. Except for certain currency and gold swaps and cross-currency interest rate swaps, no exchange of principal takes place.

Currency and gold forwards are bilateral contractual agreements involving the exchange of foreign currencies or gold at a future date. This includes undelivered spot transactions.

Forward rate agreements are bilateral interest rate forward contracts that result in cash settlement at a future date for the difference between a contracted rate of interest and the prevailing market rate.

Swaptions are bilateral options under which the seller grants the purchaser the right, but not the obligation, to enter into a currency or interest rate swap at a predetermined price by or on a set date. In consideration, the seller receives a premium from the purchaser.

The Bank sells products to its customers which contain embedded derivatives (see note 8). The gold currency options embedded in gold dual currency deposits are included within derivatives as currency and gold options.

The Bank recognises all derivative contracts in its name, including where the economic benefit lies with a third party. In such circumstances, the Bank recognises both an external contract and an exactly offsetting derivative transaction with the beneficial party.

As at 31 March	**2016**			2015		
	Notional amounts	Fair values		Notional amounts	Fair values	
SDR millions		Assets	Liabilities		Assets	Liabilities
Bond futures	895.8	0.9	(1.0)	2,910.7	1.5	(1.6)
Cross-currency swaps	1,251.0	4.8	(40.0)	583.5	56.8	–
Currency and gold forwards	4,380.7	21.9	(42.9)	1,486.5	6.7	(8.6)
Currency and gold options	1,170.4	0.2	(2.7)	1,247.1	0.1	(0.7)
Currency and gold swaps	124,721.0	486.0	(2,738.5)	126,527.1	5,228.8	(802.4)
Forward rate agreements	12,837.8	6.3	(1.9)	25,078.0	7.1	(4.4)
Interest rate futures	12,220.7	–	(0.1)	9,511.6	0.5	(0.2)
Interest rate swaps	247,718.5	1,165.2	(1,075.1)	269,846.2	1,657.2	(1,344.3)
Total derivative financial instruments	**405,195.9**	**1,685.3**	**(3,902.2)**	437,190.7	6,958.7	(2,162.2)

5. Accounts receivable and other assets

As at 31 March

SDR millions	**2016**	2015
Financial transactions awaiting settlement	10,201.7	2,335.5
Other assets	14.2	9.9
Total accounts receivable and other assets	**10,215.9**	2,345.4

"Financial transactions awaiting settlement" relates to short-term receivables, typically due in three business days or less, where transactions have been effected but cash has not yet been received.

6. Land, buildings and equipment

For the financial year ended 31 March				2016	2015
SDR millions	Land	Buildings	IT and other equipment	Total	Total
Historical cost					
Balance at beginning of year	**46.4**	**275.5**	**64.4**	**386.3**	412.6
Capital expenditure	–	4.7	13.4	18.1	14.1
Disposals and retirements	–	(2.9)	(5.5)	(8.4)	(40.4)
Balance at end of year	**46.4**	**277.3**	**72.3**	**396.0**	386.3
Depreciation					
Balance at beginning of year	**–**	**155.3**	**36.9**	**192.2**	216.4
Depreciation	–	8.9	6.6	15.5	16.2
Disposals and retirements	–	(2.7)	(5.4)	(8.1)	(40.4)
Balance at end of year	**–**	**161.5**	**38.1**	**199.6**	192.2
Net book value at end of year	**46.4**	**115.8**	**34.2**	**196.4**	194.1

The net book value of IT and other equipment at 31 March 2016 includes intangible assets, comprising computer software, of SDR 23.8 million (2015: SDR 18.6 million). The depreciation charge for the financial year ended 31 March 2016 includes an additional charge for impairment of SDR 0.2 million (2015: nil). The amount of retired assets removed from the historical cost and accumulated depreciation for the year ended 31 March 2016 was SDR 5.2 million (2015: SDR 39.6 million).

7. Gold deposits

Gold deposit liabilities placed with the Bank originate entirely from central banks. They are all designated as financial liabilities measured at amortised cost.

8. Currency deposits

Currency deposits comprise the following products:

Sight and notice deposit accounts are very short-term financial liabilities, typically having a notice period of three days or less.

Medium-Term Instruments (MTIs) are fixed rate investments at the Bank issued with initial quarterly maturities of between one and 10 years.

Callable MTIs (CMTIs) are MTIs that are callable at the option of the Bank at an exercise price of par. At 31 March 2016 all options on outstanding CMTIs had expired (in 2015 all options on CMTIs had expired). The balance sheet total for CMTIs includes the fair value of the embedded interest rate option.

FIXBIS are fixed rate investments at the Bank for any maturities between one week and one year.

FRIBIS are floating rate investments at the Bank with maturities of one year or longer for which the interest rate is reset in line with prevailing market conditions.

Fixed-term deposits are fixed rate investments at the Bank, typically with an initial maturity of less than one year.

Dual Currency Deposits (DCDs) are fixed-term deposits that are repayable on the maturity date either in the original currency or at a fixed amount in a different currency at the option of the Bank. The balance sheet total for DCDs includes the fair value of the embedded foreign exchange option. These deposits all mature between April 2016 and May 2016 (2015: in April 2015 and June 2015).

The Bank acts as the sole market-maker in certain of its currency deposit liabilities and has undertaken to repay some of these financial instruments at fair value, in whole or in part, at one to two business days' notice.

The amount the Bank is contractually obliged to pay at maturity in respect of its total currency deposits including interest accrued to 31 March 2016 is SDR 178,433.9 million (2015: SDR 176,649.4 million).

Sight and notice deposit accounts are included on an amortised cost basis, while all other deposits are included at their fair value.

Currency deposits are analysed in the table below:

As at 31 March

SDR millions	**2016**	2015
Repayable at one to three days' notice		
Sight and notice deposit accounts	26,176.9	21,955.0
Medium-Term Instruments (MTIs)	36,700.2	51,052.9
Callable MTIs (CMTIs)	730.6	1,814.2
Fixed-Rate Investments at the BIS (FIXBIS)	47,626.5	50,534.3
	111,234.2	125,356.4
Other currency deposits		
Floating Rate Investments of the BIS (FRIBIS)	121.0	181.2
Fixed-term deposits	67,028.3	50,913.8
Dual Currency Deposits (DCDs)	407.0	390.6
	67,556.3	51,485.6
Balance at end of year	**178,790.5**	176,842.0

9. Securities sold under repurchase agreements

Securities sold under repurchase agreements ("repurchase agreements") are analysed in the table below:

As at 31 March

SDR millions	**2016**	2015
Held at amortised cost	878.6	773.3
Held at fair value through profit and loss	569.1	–
Total securities sold under repurchase agreements	**1,447.7**	773.3

Further information on collateral is provided in note 3C of the "Risk management" section.

10. Accounts payable

Accounts payable consist of financial transactions awaiting settlement, relating to short-term payables where transactions have been effected but cash has not yet been transferred.

11. Other liabilities

The Bank's other liabilities consist of:

As at 31 March

SDR millions	**2016**	2015
Post-employment benefit obligations (see note 12)		
Staff pensions	503.2	347.6
Directors' pensions	10.8	10.2
Health and accident benefits	555.0	498.7
Payable to former shareholders	0.4	0.4
Other	19.6	20.3
Balance at end of year	**1,089.0**	877.2

12. Post-employment benefit obligations

The Bank operates three post-employment arrangements:

1. A defined benefit pension arrangement for its staff in the event of retirement, disability or death. Under this arrangement, benefits accrue according to years of participation and pensionable remuneration. These benefits are paid out of a fund, without separate legal personality. Contributions are made to this fund by the Bank and by staff and the fund is the beneficial owner of assets on which it receives a return. These assets are administered by the Bank for the sole benefit of participants in the arrangement. Except as shown in this note, these assets are not recognised as assets of the Bank. The Bank remains ultimately liable for all benefits due under the arrangement.

2. An unfunded defined benefit arrangement for its Directors, whose entitlement is based on a minimum service period of 49 months.

3. An unfunded post-employment health and accident benefit arrangement for its staff and their dependents. Employees who leave the Bank after becoming eligible for early retirement benefits from the pension arrangement are eligible for post-employment health and accident benefits.

All three arrangements operate in Swiss francs and are valued annually by an independent actuary. During 2016/17, the Bank expects to make contributions of SDR 33.0 million to its post-employment arrangements.

A. Amounts recognised in the balance sheet

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Present value of obligations	(1,551.4)	(1,468.7)	(1,398.6)	(10.8)	(10.2)	(8.8)	(555.0)	(498.7)	(431.4)
Fair value of fund assets	1,048.2	1,121.1	1,062.1	–	–	–	–	–	–
Liability at end of year	**(503.2)**	(347.6)	(336.5)	**(10.8)**	(10.2)	(8.8)	**(555.0)**	(498.7)	(431.4)

B. Present value of defined benefit obligations

The reconciliation of the opening and closing amounts of the present value of the benefit obligations is as follows:

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Present value of obligations at beginning of year	(1,468.7)	(1,398.6)	(1,370.7)	(10.2)	(8.8)	(8.9)	(498.7)	(431.4)	(478.9)
Employee contributions	(6.7)	(6.6)	(6.5)	–	–	–	–	–	–
Benefit payments	41.8	49.4	35.8	0.5	0.4	0.5	3.0	2.9	2.9
Net current service cost	(56.3)	(61.5)	(63.6)	(0.6)	(0.4)	(0.5)	(24.3)	(12.1)	(18.2)
Interest cost on obligations at opening discount rate	(11.4)	(27.3)	(24.1)	(0.1)	(0.2)	(0.1)	(3.9)	(8.5)	(8.5)
Actuarial gain / (loss) arising from experience adjustments	12.5	30.3	21.3	–	–	0.4	(5.3)	(41.2)	41.0
Actuarial gain / (loss) arising from changes in demographic assumptions	(4.3)	19.5	(5.6)	–	(0.2)	–	(2.2)	30.9	26.1
Actuarial gain / (loss) arising from changes in financial assumptions	(70.7)	(45.0)	65.1	(0.6)	(0.8)	0.3	(27.7)	(30.3)	24.3
Past service costs	–	–	7.0	–	–	–	–	–	–
Foreign exchange differences	12.4	(28.9)	(57.3)	0.2	(0.2)	(0.5)	4.1	(9.0)	(20.1)
Present value of obligations at end of year	**(1,551.4)**	(1,468.7)	(1,398.6)	**(10.8)**	(10.2)	(8.8)	**(555.0)**	(498.7)	(431.4)

The following table shows the weighted average duration of the defined benefit obligations for the Bank's three post-employment benefit arrangements:

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
Years	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Weighted average duration	**18.3**	18.2	18.4	**13.4**	13.0	12.3	**23.6**	23.7	22.1

C. Amounts recognised in the profit and loss account

For the financial year ended 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Net current service cost	(56.3)	(61.5)	(63.6)	(0.6)	(0.4)	(0.5)	(24.3)	(12.1)	(18.2)
Reduction in past service cost	–	–	7.0	–	–	–	–	–	–
Interest cost on net liability	(2.6)	(6.3)	(6.7)	(0.1)	(0.2)	(0.1)	(3.9)	(8.5)	(8.5)
Total included in operating expense	**(58.9)**	(67.8)	(63.3)	**(0.7)**	(0.6)	(0.6)	**(28.2)**	(20.6)	(26.7)

D. Re-measurement of defined benefit obligations recognised in other comprehensive income

For the financial year ended 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Return on plan assets in excess of opening discount rate	(65.8)	30.5	26.9	–	–	–	–	–	–
Actuarial gains and losses arising from experience adjustments	12.5	30.3	21.3	–	–	0.4	(5.3)	(41.2)	41.0
Actuarial gains and losses arising from changes in demographic assumptions	(4.3)	19.5	(5.6)	–	(0.2)	–	(2.2)	30.9	26.1
Actuarial gains and losses arising from changes in financial assumptions	(70.7)	(45.0)	65.1	(0.6)	(0.8)	0.3	(27.7)	(30.3)	24.3
Foreign exchange gains and losses on items in other comprehensive income	0.6	(2.0)	(9.2)	0.1	–	(0.2)	1.2	(1.8)	(7.3)
Amounts recognised in other comprehensive income	**(127.7)**	33.3	98.5	**(0.5)**	(1.0)	0.5	**(34.0)**	(42.4)	84.1

E. Analysis of movement on fair value of fund assets for staff pensions

The reconciliation of the opening and closing amounts of the fair value of fund assets for the staff pension arrangement is as follows:

For the financial year ended 31 March

SDR millions	**2016**	2015	2014
Fair value of fund assets at beginning of year	1,121.1	1,062.1	978.2
Employer contributions	29.0	28.2	27.8
Employee contributions	6.7	6.6	6.5
Benefit payments	(41.8)	(49.4)	(35.8)
Interest income on plan assets calculated on opening discount rate	8.8	21.0	17.4
Return on plan assets in excess of opening discount rate	(65.8)	30.5	26.9
Foreign exchange differences	(9.8)	22.1	41.1
Fair value of fund assets at end of year	**1,048.2**	1,121.1	1,062.1

F. Composition and fair value of assets for the pension fund

The table below analyses the assets of the pension fund and the extent to which the fair values of those assets have been calculated using quoted prices in active markets. The pension fund does not invest in financial instruments issued by the Bank.

As at 31 March	**2016**			2015		
SDR millions	Quoted in active market	Unquoted	Total	Quoted in active market	Other	Total
Cash (including margin accounts)	32.0	–	32.0	14.9	–	14.9
Debt securities	269.2	–	269.2	325.0	–	325.0
Fixed income funds	175.8	–	175.8	212.5	–	212.5
Equity funds	404.6	35.1	439.7	452.2	36.5	488.7
Real estate funds	17.7	41.8	59.5	17.4	8.0	25.4
Commodity-linked notes	–	50.3	50.3	–	54.2	54.2
Derivative instruments	–	21.7	21.7	(0.2)	0.6	0.4
Total	**899.3**	**148.9**	**1,048.2**	1,021.8	99.3	1,121.1

G. Principal actuarial assumptions used in these financial statements

As at 31 March	2016	2015
Applicable to staff pension and post-employment health and accident benefit arrangements		
Discount rate	0.60%	0.80%
Applicable to Directors' pension arrangements		
Discount rate	0.40%	0.80%
Applicable to staff and Directors' pension arrangements		
Assumed increase in pensions payable	0.80%	0.80%
Applicable to staff pension arrangement		
Assumed salary increase rate	2.80%	2.80%
Applicable to Directors' pension arrangement		
Assumed Directors' pensionable remuneration increase rate	0.80%	0.80%
Applicable to post-employment health and accident benefit arrangement		
Long-term medical cost inflation assumption	4.00%	4.00%

The assumed increases in staff salaries, Directors' pensionable remuneration and pensions payable incorporate an inflation assumption of 0.80% at 31 March 2016 (2015: 0.80%).

H. Life expectancies

The life expectancies, at age 65, used in the actuarial calculations for the staff pension arrangement are:

As at 31 March

Years	2016	2015
Current life expectancy of members aged 65		
Male	20.1	20.0
Female	22.4	22.3
Life expectancy of members aged 65 projected forward in 10 years' time		
Male	21.1	21.0
Female	23.3	23.2

I. Sensitivity analysis of significant actuarial assumptions

The Bank is exposed to risks from these obligations and arrangements including investment risk, interest rate risk, foreign exchange risk, longevity risk and salary risk.

Investment risk is the risk that plan assets will not generate returns at the expected level.

Interest rate risk is the exposure of the post-employment benefit obligations to adverse movements in interest rates including credit spreads. A decrease in interest rates will increase the present value of these obligations. However, in the case of the staff pension arrangement this may be offset, either fully or partly, by an increase in value of the interest-bearing securities held by the fund.

Foreign exchange risk is the exposure of the post-employment benefit obligations to adverse movements in exchange rates between the Swiss franc, which is the operating currency of the post-employment benefit arrangements, and the SDR, which is the functional currency of the Bank.

Longevity risk is the risk that actual outcomes differ from actuarial estimates of life expectancy.

Salary risk is the risk that higher than expected salary rises increase the cost of providing a salary-related pension.

The table below shows the estimated impact on the defined benefit obligations resulting from a change in key actuarial assumptions (see the tables in notes 12G and 12H):

As at 31 March	**Staff pensions** Increase / (decrease) in defined benefit obligation	
SDR millions	**2016**	2015
Discount rate		
Increase by 0.5%	(131.9)	(123.4)
Decrease by 0.5%	150.5	142.5
Rate of salary increase		
Increase by 0.5%	41.9	39.7
Decrease by 0.5%	(38.8)	(36.7)
Rate of pension payable increase		
Increase by 0.5%	100.8	95.5
Decrease by 0.5%	(91.5)	(86.7)
Life expectancy		
Increase by 1 year	60.5	55.8
Decrease by 1 year	(59.0)	(51.4)

As at 31 March	**Directors' pensions** Increase / (decrease) in defined benefit obligation	
SDR millions	**2016**	2015
Discount rate		
Increase by 0.5%	(0.7)	(0.6)
Decrease by 0.5%	0.8	0.7
Rate of pension payable increase		
Increase by 0.5%	0.6	0.6
Decrease by 0.5%	(0.6)	(0.5)
Life expectancy		
Increase by 1 year	0.6	0.6
Decrease by 1 year	(0.6)	(0.5)

As at 31 March	Post-employment health and accident benefits Increase / (decrease) in defined benefit obligation	
SDR millions	**2016**	2015
Discount rate		
Increase by 0.5%	(59.9)	(53.9)
Decrease by 0.5%	70.5	63.3
Medical cost inflation rate		
Increase by 0.5%	139.4	124.5
Decrease by 0.5%	(101.6)	(92.3)
Life expectancy		
Increase by 1 year	35.0	30.9
Decrease by 1 year	(33.3)	(29.9)

The above estimates were arrived at by changing each assumption individually, holding other variables constant. They do not include any correlation effects that may exist between variables.

13. Share capital

The Bank's share capital consists of:

As at 31 March

SDR millions	**2016**	2015
Authorised capital: 600,000 shares, each of SDR 5,000 par value, of which SDR 1,250 is paid up	3,000.0	3,000.0
Issued capital: 559,125 shares	2,795.6	2,795.6
Paid-up capital (25%)	**698.9**	698.9

The number of shares eligible for dividend is:

As at 31 March	**2016**	2015
Issued shares	559,125	559,125
Shares held in treasury	(1,000)	(1,000)
Outstanding shares eligible for dividend	**558,125**	558,125

Shares held in treasury consist of 1,000 shares of the Albanian issue which were suspended in 1977.

14. Statutory reserves

The Bank's Statutes provide for application of the Bank's annual net profit, by the Annual General Meeting at the proposal of the Board of Directors, to three specific reserve funds: the legal reserve fund, the general reserve fund and the special dividend reserve fund; the remainder of the net profit after payment of any dividend is generally allocated to the free reserve fund.

Legal reserve fund. This fund is currently fully funded at 10% of the Bank's paid-up capital.

General reserve fund. After payment of any dividend, 5% of the remainder of the Bank's annual net profit currently must be allocated to the general reserve fund.

Special dividend reserve fund. A portion of the remainder of the annual net profit may be allocated to the special dividend reserve fund, which shall be available, in case of need, for paying the whole or any part of a declared dividend. Dividends are normally paid out of the Bank's net profit.

Free reserve fund. After the above allocations have been made, any remaining unallocated net profit is generally transferred to the free reserve fund.

Receipts from the subscription of the Bank's shares are allocated to the legal reserve fund as necessary to keep it fully funded, with the remainder being credited to the general reserve fund.

The free reserve fund, general reserve fund and legal reserve fund are available, in that order, to meet any losses incurred by the Bank. In the event of liquidation of the Bank, the balances of the reserve funds (after the discharge of the liabilities of the Bank and the costs of liquidation) would be divided among the Bank's shareholders.

The table below analyses the movements in the Bank's statutory reserves over the last two years:

SDR millions	Legal reserve fund	General reserve fund	Special dividend reserve fund	Free reserve fund	Total statutory reserves
Balance at 31 March 2014	**69.8**	**3,606.0**	**184.0**	**10,420.6**	**14,280.4**
Allocation of 2013/14 profit	–	15.0	–	284.3	299.3
Balance at 31 March 2015	**69.8**	**3,621.0**	**184.0**	**10,704.9**	**14,579.7**
Allocation of 2014/15 profit	–	20.9	–	396.4	417.3
Balance at 31 March 2016	**69.8**	**3,641.9**	**184.0**	**11,101.3**	**14,997.0**

At 31 March 2016 statutory reserves included share premiums of SDR 1,059.6 million (2015: SDR 1,059.6 million).

In accordance with Article 51 of the Bank's Statutes, the following profit allocation will be proposed at the Bank's Annual General Meeting:

SDR millions	**2016**
Net profit	**412.9**
Proposed dividend:	
SDR 215 per share on 558,125 shares	(120.0)
Profit available for allocation	**292.9**
Proposed transfers to reserves:	
General reserve fund	(14.6)
Free reserve fund	(278.3)
Balance after allocation to reserves	–

15. Other equity accounts

Other equity accounts comprise the revaluation accounts for available for sale assets (gold and currency investment assets) as well as the re-measurement gains or losses on defined benefit obligations.

As at 31 March

SDR millions	**2016**	2015
Securities revaluation account	251.7	234.9
Gold revaluation account	2,431.0	2,467.4
Re-measurement of defined benefit obligations	(411.2)	(249.0)
Total other equity accounts	**2,271.5**	2,453.3

A. Securities revaluation account

This account contains the difference between the fair value and the amortised cost of the Bank's currency investment assets. The movements in the securities revaluation account were as follows:

For the financial year ended 31 March

SDR millions	**2016**	2015
Balance at beginning of year	234.9	132.4
Net gain on sales	(79.7)	(52.0)
Fair value and other movements	96.5	154.5
Net movement on revaluation of currency investment assets	**16.8**	102.5
Balance at end of year	**251.7**	234.9

The table below analyses the balance in the securities revaluation account, which relates to government and other securities:

SDR millions	Fair value of assets	Historical cost	Securities revaluation account	Gross gains	Gross losses
As at 31 March 2016	15,682.1	15,430.4	**251.7**	252.7	(1.0)
As at 31 March 2015	15,966.7	15,731.8	234.9	237.2	(2.3)

B. Gold revaluation account

The movements in the gold revaluation account were as follows:

For the financial year ended 31 March

SDR millions	**2016**	2015
Balance at beginning of year	2,467.4	2,437.5
Net gain on sales	(84.3)	(65.6)
Gold price movement	47.9	95.5
Net movement on revaluation of gold investment assets	**(36.4)**	29.9
Balance at end of year	**2,431.0**	2,467.4

C. Re-measurement of defined benefit obligations

This account contains the gains and losses from re-measurement of the Bank's post-employment benefit obligations.

For the financial year ended 31 March

SDR millions	**2016**	2015
Balance at beginning of year	(249.0)	(238.9)
Staff pension	(127.7)	33.3
Directors' pension	(0.5)	(1.0)
Post-employment health and accident insurance	(34.0)	(42.4)
Net movement on the re-measurement of defined benefit obligations	**(162.2)**	(10.1)
Balance at end of year	**(411.2)**	(249.0)

Note 12D provides further analysis of the re-measurement of the Bank's post-employment benefit obligations.

16. Interest income

For the financial year ended 31 March

SDR millions	**2016**	2015
Currency assets available for sale		
Securities purchased under resale agreements	1.8	1.6
Government and other securities	162.3	184.9
	164.1	186.5
Currency assets held at fair value through profit and loss		
Treasury bills	80.9	95.7
Securities purchased under resale agreements	62.6	78.4
Loans and advances	91.2	111.3
Government and other securities	548.6	660.9
	783.3	946.3
Assets designated as loans and receivables		
Sight and notice accounts	0.4	0.5
Gold investment assets	6.7	1.6
Gold banking assets	0.2	0.7
	7.3	2.8
Derivative financial instruments held at fair value through profit and loss	**818.0**	423.5
Interest income on liabilities	**31.4**	9.2
Total interest income	**1,804.1**	1,568.3

17. Interest expense

For the financial year ended 31 March

SDR millions	**2016**	2015
Liabilities held at fair value through profit and loss		
Currency deposits	**748.3**	741.3
Liabilities designated as financial liabilities measured at amortised cost		
Sight and notice deposit accounts	46.1	39.6
Gold deposits	–	0.6
Securities sold under repurchase agreements	1.4	1.1
	47.5	41.3
Interest expense on assets	**179.5**	32.6
Total interest expense	**975.3**	815.2

18. Net valuation movement

The net valuation movement arises entirely on financial instruments designated as held at fair value through profit and loss. There were no credit losses due to restructuring or default in the financial years ended 31 March 2016 and 31 March 2015.

For the financial year ended 31 March

SDR millions	**2016**	2015
Currency assets		
Unrealised valuation movements on currency assets	(188.8)	32.5
Realised gains on currency assets	63.0	56.2
	(125.8)	88.7
Currency liabilities		
Unrealised valuation movements on financial liabilities	118.8	(62.1)
Realised losses on financial liabilities	(104.2)	(53.5)
	14.6	(115.6)
Valuation movements on derivative financial instruments	**(191.7)**	(70.9)
Net valuation movement	**(302.9)**	(97.8)

19. Net fee and commission income

For the financial year ended 31 March

SDR millions	**2016**	2015
Net third-party asset management fee income	12.7	9.9
Other fee income	2.3	3.8
Other fees, withholding taxes and commission expenses	(9.9)	(7.9)
Net fee and commission income	**5.1**	5.8

20. Foreign exchange movement

For the financial year ended 31 March

SDR millions	**2016**	2015
Net transaction gain	13.9	7.1
Net translation movement	(15.1)	31.7
Net foreign exchange movement	**(1.2)**	38.8

21. Operating expense

The following table analyses the Bank's operating expense in Swiss francs (CHF), the currency in which most expenditure is incurred:

For the financial year ended 31 March

CHF millions	**2016**	2015
Board of Directors		
Directors' fees	2.1	2.1
Pensions to former Directors	0.9	0.9
Travel, external Board meetings and other costs	1.9	1.2
	4.9	4.2
Management and staff		
Remuneration	129.4	128.7
Pensions	79.7	93.8
Other personnel-related expense	57.4	46.9
	266.5	269.4
Office and other expense	**73.2**	70.8
BIS administrative expense	**344.6**	344.4
Direct contributions to hosted organisations	15.2	11.8
Total administrative expenses	**359.8**	356.2
Administrative expense in SDR millions	265.4	258.4
Depreciation in SDR millions	15.5	16.2
Operating expense in SDR millions	**280.9**	274.6

The average number of full-time equivalent employees during the financial year ended 31 March 2016 was 573 (2015: 572). In addition, at 31 March 2016, the Bank was the legal employer of 67 staff members (2015: 61) working in the secretariats of the Financial Stability Board (FSB), the International Association of Deposit Insurers (IADI) and the International Association of Insurance Supervisors (IAIS).

The Bank makes direct contributions, which include salary and post-employment costs and other related expenses, towards the operational costs of the FSB, IADI and the IAIS, and these amounts are shown under "Direct contributions to hosted organisations". The Bank also provides logistical, administrative and staffing-related support for these organisations, the cost of which is included within the Bank's regular administrative expense categories.

22. Net gain on sales of available for sale securities

For the financial year ended 31 March

SDR millions	**2016**	2015
Disposal proceeds	7,041.9	6,367.4
Amortised cost	(6,962.2)	(6,315.4)
Net gain on sales of available for sale securities	**79.7**	52.0
Comprising:		
Gross realised gains	80.8	55.7
Gross realised losses	(1.1)	(3.7)

23. Net gain on sales of gold investment assets

For the financial year ended 31 March

SDR millions	**2016**	2015
Disposal proceeds	103.7	80.1
Deemed cost	(19.4)	(14.5)
Net gain on sales of gold investment assets	**84.3**	65.6

24. Dividend per share

For the financial year ended 31 March	**2016**	2015
Net profit for the financial year (SDR millions)	412.9	542.9
Weighted average number of shares entitled to dividend	558,125	558,125
Dividend per share (SDR per share)	215.0	225.0
Total dividend (SDR millions)	**120.0**	125.6

The Bank's dividend policy requires that the dividend be set at a sustainable level which should vary over time in a predictable fashion. The policy also requires that the dividend reflect the Bank's capital needs and its prevailing financial circumstances, with a payout ratio of between 20% and 30% in most years.

The proposed dividend for 2016 represents a payout ratio of 29% of net profit (2015: 23%).

25. Exchange rates

The following table shows the principal exchange rates and prices used to translate balances in foreign currency and gold into SDR:

	Spot rate as at 31 March		Average rate for the financial year	
	2016	2015	**2016**	2015
USD	**0.710**	0.725	**0.717**	0.674
EUR	**0.808**	0.778	**0.791**	0.852
JPY	**0.00632**	0.00604	**0.00597**	0.00614
GBP	**1.022**	1.076	**1.081**	1.085
CHF	**0.740**	0.747	**0.737**	0.725
Gold (per ounce)	**876.9**	860.7	**824.9**	839.8

26. Off-balance sheet items

The following items are not included in the Bank's balance sheet:

As at 31 March

SDR millions	**2016**	2015
Gold bars held under earmark arrangements	12,487.5	12,256.4
Nominal value of securities:		
Securities held under safe custody arrangements	4,977.2	4,733.0
Securities held under collateral pledge agreements	38.1	38.9
Net asset value of portfolio management mandates:		
BISIPs	11,041.0	9,618.0
Dedicated mandates	4,187.6	4,019.7

Gold bars held under earmark arrangements comprise specific gold bars which have been deposited with the Bank on a custody basis. They are included at their weight in gold (translated at the gold market price and the USD exchange rate into SDR). At 31 March 2016 gold bars held under earmark amounted to 443 tonnes of gold (2015: 443 tonnes).

Portfolio management mandates include BIS Investment Pools (BISIPs) and dedicated mandates.

The BISIPs are a range of open-ended investment funds created by the Bank and managed using entities that do not have a separate legal personality from the Bank. The Bank has an agency relationship with the BISIPs, such that the assets of the BISIPs are held in the name of the BIS, but the economic benefit lies with central bank customers. The Bank does not invest for its own account in the BISIPs.

Dedicated mandates are portfolios which are managed by the Bank in accordance with investment guidelines set by the customer. They are held for the financial benefit of the central bank customer.

For both the BISIPs and the dedicated mandates, the Bank is remunerated by a management fee which is included within net fee and commission income in the profit and loss account.

27. Commitments

The Bank provides a number of committed standby facilities for its customers on a collateralised or uncollateralised basis. At 31 March 2016 all of the outstanding commitments were collateralised and amounted to SDR 3,121.6 million (2015: SDR 3,096.5 million). The BIS is committed to supporting the operations of the Financial Stability Board (FSB), the International Association of Deposit Insurers (IADI) and the International Association of Insurance Supervisors (IAIS). In each case, the Bank has a separate agreement specifying the terms of support and commitment. The Bank is the legal employer of FSB, IADI and IAIS staff, with the regular ongoing staff costs borne by each association. The commitment by the BIS to IADI is subject to an annual budgetary decision of the Board. The agreement with the FSB is under an initial five-year term ending in January 2018. The agreement with the IAIS is under a five-year term ending in 2019.

28. Fair value hierarchy

The Bank categorises its financial instrument fair value measurements using a hierarchy that reflects the observability of inputs used in measuring that value. A valuation level is assigned according to the least observable input that is significant to the fair value measurement in its entirety. The fair value hierarchy used by the Bank comprises the following levels:

Level 1 – Instruments valued using unadjusted quoted prices in active markets for identical financial instruments.

Level 2 – Instruments valued with valuation techniques using inputs which are observable for the financial instrument either directly (ie as a price) or indirectly (ie derived from prices for similar financial instruments). This includes observable interest rates, spreads and volatilities.

Level 3 – Instruments valued using valuation techniques where the inputs are not observable in financial markets.

At 31 March 2016 the Bank had no financial instruments categorised as level 3 (31 March 2015: nil).

As at 31 March 2016

SDR millions	Level 1	Level 2	Total
Financial assets held at fair value through profit and loss			
Treasury bills	31,792.1	7,786.5	39,578.6
Securities purchased under resale agreements	–	55,340.0	55,340.0
Fixed-term loans	–	16,805.5	16,805.5
Government securities	40,077.9	12,247.0	52,324.9
Derivative financial instruments	1.9	1,683.4	1,685.3
Financial assets designated as available for sale			
Government securities	14,395.9	407.6	14,803.5
Securities purchased under resale agreements	–	878.6	878.6
Total financial assets accounted for at fair value	**86,267.8**	**95,148.6**	**181,416.4**
Financial liabilities held at fair value through profit and loss			
Currency deposits	–	(152,613.6)	(152,613.6)
Securities sold under repurchase agreements	–	(569.1)	(569.1)
Derivative financial instruments	(2.1)	(3,900.1)	(3,902.2)
Total financial liabilities accounted for at fair value	**(2.1)**	**(157,082.8)**	**(157,084.9)**

As at 31 March 2015

SDR millions	Level 1	Level 2	Total
Financial assets held at fair value through profit and loss			
Treasury bills	26,869.2	7,056.8	33,926.0
Securities purchased under resale agreements	–	48,230.3	48,230.3
Fixed-term loans	–	17,437.5	17,437.5
Government and other securities	48,124.3	17,592.5	65,716.8
Derivative financial instruments	3.2	6,955.5	6,958.7
Financial assets designated as available for sale			
Government and other securities	14,937.4	256.0	15,193.4
Securities purchased under resale agreements	–	773.3	773.3
Total financial assets accounted for at fair value	89,934.1	98,301.9	188,236.0
Financial liabilities held at fair value through profit and loss			
Currency deposits	–	(154,887.0)	(154,887.0)
Derivative financial instruments	(3.0)	(2,159.2)	(2,162.2)
Total financial liabilities accounted for at fair value	(3.0)	(157,046.2)	(157,049.2)

A. Transfers between levels in the fair value hierarchy

Of the assets categorised as level 1 at 31 March 2016, SDR 1,443.7 million related to assets that were categorised as level 2 at 31 March 2015. Of the assets categorised as level 2 at 31 March 2016, SDR 1,141.5 million related to assets that had been categorised as level 1 at 31 March 2015. The transfer of assets between levels 1 and 2 reflected specific market conditions existing at the reporting dates that affected the observability of the market prices as defined above. No liabilities were transferred between fair value hierarchy levels.

B. Assets and liabilities measured at fair value level 3

During the financial years ended 31 March 2016 and 31 March 2015 the Bank did not classify any assets or liabilities as level 3 in the fair value hierarchy.

C. Financial instruments not measured at fair value

The Bank accounts for certain financial instruments at amortised cost. Using the same valuation techniques for amortised cost financial instruments as are applied to fair valued financial instruments, the Bank estimates that their fair values would be materially the same as the carrying values shown in these financial statements for both 31 March 2016 and 31 March 2015. If these instruments were included in the fair value hierarchy, the valuation of "Gold loans" and "Securities sold under repurchase agreements" would be considered level 2. All other amortised cost financial instruments would be considered level 1.

D. Impact of changes in the Bank's creditworthiness

The fair value of the Bank's liabilities may be affected by any change in its creditworthiness. If the Bank's creditworthiness deteriorated, the value of its liabilities should decrease, and the change in value would be reflected as a valuation movement in the profit and loss account. The Bank regularly assesses its creditworthiness as part of its risk management processes. The Bank's assessment of its creditworthiness did not indicate a change which could have had an impact on the fair value of the Bank's liabilities during the period under review.

E. The valuation of financial assets and liabilities

Certain of the Bank's financial assets and financial liabilities are valued using valuation techniques which require estimation of appropriate valuation parameters. Changes in estimates of these parameters could significantly affect the reported fair values. The valuation impact of a 1 basis point change in spread assumptions of key financial instruments is shown in the table below:

For the financial year ended 31 March

SDR millions	**2016**	2015
Treasury bills	1.4	1.0
Securities purchased under resale agreements	0.2	0.3
Loans and advances	0.3	0.2
Government and other securities	10.8	12.2
Currency deposits	8.8	12.4
Derivative financial instruments	0.8	3.0

29. Geographical analysis

A. Total liabilities

As at 31 March

SDR millions	**2016**	2015
Africa and Europe	76,999.3	73,071.4
Asia-Pacific	100,801.6	89,360.3
Americas	23,762.9	21,801.2
International organisations	11,442.0	14,329.0
Balance at end of year	**213,005.8**	198,561.9

B. Off-balance sheet items

As at 31 March

SDR millions	**2016**			2015		
	Gold bars held under earmark	Nominal value of securities	Net asset value of portfolio management mandates	Gold bars held under earmark	Nominal value of securities	Net asset value of portfolio management mandates
Africa and Europe	4,579.8	–	3,379.1	4,495.1	–	2,843.1
Asia-Pacific	4,724.8	4,977.2	9,637.8	4,637.4	4,733.0	8,981.7
Americas	3,182.9	38.1	2,211.7	3,123.9	38.9	1,812.9
Total	**12,487.5**	**5,015.3**	**15,228.6**	12,256.4	4,771.9	13,637.7

C. Credit commitments

As at 31 March

SDR millions	**2016**	2015
Africa and Europe	242.4	233.5
Asia-Pacific	2,879.2	2,863.0
Total	**3,121.6**	3,096.5

A geographical analysis of the Bank's assets by default risk is provided in the "Risk management" section in note 3B under "Default risk by geographical region".

30. Related parties

The Bank considers the following to be its related parties:

- the members of the Board of Directors;
- the senior officials of the Bank;
- close family members of the above individuals;
- the Bank's post-employment benefit arrangements; and
- central banks whose Governor is a member of the Board of Directors and institutions that are connected with these central banks.

A listing of the members of the Board of Directors and senior officials is shown in the sections of the Annual Report entitled "Board of Directors" and "BIS Management". Note 12 provides details of the Bank's post-employment benefit arrangements.

A. Related party individuals

Note 21 provides details of the total compensation of the Board of Directors.

The total compensation of the senior officials recognised in the profit and loss account amounted to:

For the financial year ended 31 March

CHF millions	**2016**	2015
Salaries, allowances and medical cover	8.0	7.5
Post-employment benefits	2.2	2.2
Total compensation	**10.2**	9.7
SDR equivalent	7.5	7.0

The Bank offers personal deposit accounts for all staff members and its Directors. The accounts bear interest at a rate determined by the Bank based on the rate offered by the Swiss National Bank on staff accounts. The movements and total balance on personal deposit accounts relating to members of the Board of Directors and the senior officials of the Bank were as follows:

For the financial year ended 31 March

CHF millions	**2016**	2015
Balance at beginning of year	18.9	18.3
Deposits taken and other inflows	3.7	3.9
Withdrawals and other outflows	(8.0)	(3.3)
Balance at end of year	**14.6**	18.9
SDR equivalent	10.8	14.1
Interest expense on deposits in CHF millions	**0.1**	0.4
SDR equivalent	0.1	0.3

Balances related to individuals who are appointed as members of the Board of Directors or as senior officials of the Bank during the financial year are included in the table above as other inflows. Balances related to individuals who ceased to be members of the Board of Directors or senior officials of the Bank during the financial year are included in the table above as other outflows.

In addition, the Bank operates a blocked personal deposit account for certain staff members who were previously members of the Bank's savings fund, which closed on 1 April 2003. The terms of these blocked accounts are such that staff members cannot make further deposits or withdrawals and the balances are paid out when they leave the Bank. The accounts bear interest at a rate determined by the Bank based on the rate offered by the Swiss National Bank on staff accounts plus 1%. The total balance of blocked accounts at 31 March 2016 was SDR 12.9 million (2015: SDR 14.4 million). They are reported under the balance sheet heading "Currency deposits".

B. Related party customers

The BIS provides banking services to its customers, which are predominantly central banks, monetary authorities and international financial institutions. In fulfilling this role, the Bank, in the normal course of business, enters into transactions with customers which are related parties (as defined above). These transactions include making advances, and taking currency and gold deposits. It is the Bank's policy to enter into transactions with related party customers on similar terms and conditions to transactions with other, non-related party customers. The following tables show balances relating to these transactions. The Bank believes these are representative of the general level of business undertaken with related party customers during the year.

Balances with related party customers

As at 31 March	**2016**			2015		
	Balance sheet total	Balance with related parties		Balance sheet total	Balance with related parties	
SDR millions / percentages	*SDR millions*	*SDR millions*	*%*	*SDR millions*	*SDR millions*	*%*
Assets						
Cash	25,847.0	**25,538.7**	98.8	11,375.3	11,330.3	99.6
Gold and gold loans	13,176.8	**12,067.2**	91.6	14,155.5	13,973.9	98.7
Securities purchased under resale agreements	56,218.6	**1,609.3**	2.9	49,003.6	3,513.0	7.2
Government and other securities	67,128.4	**1,227.6**	1.8	80,910.2	163.7	0.1
Derivative assets	1,685.3	**11.6**	0.7	6,958.7	177.9	2.6
Liabilities						
Currency deposits	(178,790.5)	**(70,537.9)**	39.5	(176,842.0)	(76,741.6)	43.4
Gold deposits	(10,227.6)	**(7,491.2)**	73.2	(9,857.3)	(7,352.5)	74.6
Derivative liabilities	(3,902.2)	**(64.1)**	1.6	(2,162.2)	(8.5)	0.4

Main profit and loss items arising from transactions with related party customers

For the financial year ended 31 March	**2016**			2015		
	Profit and loss total	Balance with related parties		Profit and loss total	Balance with related parties	
SDR millions / percentages	*SDR millions*	*SDR millions*	*%*	*SDR millions*	*SDR millions*	*%*
Interest income	1,804.1	**38.1**	2.1	1,568.3	11.1	0.7
Interest expense	(975.3)	**(395.7)**	40.6	(815.2)	(372.9)	45.7

31. Contingent liabilities

In the opinion of the Bank's Management there were no significant contingent liabilities at 31 March 2016 (31 March 2015: nil).

Capital adequacy

1. Capital adequacy frameworks

As an international financial institution that is overseen by a Board composed of Governors of major central banks and that has no national supervisor, the Bank is committed to maintaining its superior credit quality and financial strength, in particular in situations of financial stress.

The Bank continuously assesses its capital adequacy based on an annual capital planning process that focuses on two elements: an economic capital framework and a financial leverage framework. The disclosures in this section related to credit, market, operational and liquidity risk are based on the Bank's own assessment of capital adequacy derived in accordance with these two BIS frameworks. Regulatory capital ratios are not used as indicators of BIS capital adequacy because key aspects of the business model for the BIS banking activities are not adequately captured. In the main, these relate to the high level of solvency targeted by the Bank as well as the way regulatory capital ratios reflect portfolio concentrations and interest rate risk in the banking book.

To facilitate comparability, the Bank has implemented a framework that is consistent with the revised *International Convergence of Capital Measurement and Capital Standards* (Basel II framework) issued by the Basel Committee on Banking Supervision (BCBS) in June 2006. Following that framework, the Bank discloses a Tier 1 capital ratio (Pillar 1), risk-weighted assets and more detailed related information. In addition, the Bank calculates for reference a Common Equity Tier 1 capital ratio, leverage ratio and Liquidity Coverage Ratio taking account of banking supervisory recommendations related to Basel III. The Bank maintains a capital position substantially in excess of the regulatory minimum requirement in order to ensure its superior credit quality.

2. Economic capital

The Bank's economic capital methodology relates its risk-taking capacity to the amount of economic capital needed to absorb potential losses arising from its exposures. The risk-taking capacity is defined as allocatable economic capital that is derived following a prudent assessment of the components of the Bank's equity, which are set out in the table below:

As at 31 March

SDR millions	**2016**	2015
Share capital	698.9	698.9
Statutory reserves per balance sheet	14,997.0	14,579.7
Less: shares held in treasury	(1.7)	(1.7)
Share capital and reserves	**15,694.2**	15,276.9
Securities revaluation account	251.7	234.9
Gold revaluation account	2,431.0	2,467.4
Re-measurement of defined benefit obligations	(411.2)	(249.0)
Other equity accounts	**2,271.5**	2,453.3
Profit and loss account	**412.9**	542.9
Total equity	**18,378.6**	18,273.1

Allocatable economic capital is determined following a prudent evaluation of the Bank's equity components for their loss absorption capacity and sustainability. The components of capital with long-term risk-bearing capacity are the Bank's Tier 1 capital and the sustainable portion of the securities and gold revaluation reserves ("sustainable supplementary capital"). Only this "allocatable capital" is available for allocation to the various categories of risk. The portion of revaluation reserves that is considered more transitory in nature is assigned to the "capital filter" together with the profit accrued during the financial period under review.

As at 31 March

SDR millions	2016	2015
Share capital and reserves	15,694.2	15,276.9
Re-measurement of defined benefit obligations	(411.2)	(249.0)
Tier 1 capital	**15,283.0**	15,027.9
Sustainable supplementary capital	1,917.0	1,772.1
Allocatable capital	**17,200.0**	16,800.0
Capital filter	1,178.6	1,473.1
Total equity	**18,378.6**	18,273.1

As part of the annual capital planning process, Management allocates economic capital to risk categories within the amount of allocatable capital. As a first step, capital is assigned to an "economic capital cushion" that provides an additional margin of safety and is sufficient to sustain a potential material loss without the need to reduce the capital allocation to individual risk categories or to liquidate any holdings of assets. The level of the economic capital cushion is determined based on stress tests that explore extreme but still plausible default events. Allocations are then made to each category of financial risk (ie credit, market and "other risks") as well as operational risk. "Other risks" are risks that have been identified but that are not taken account of in the economic capital utilisation calculations, and include model risk and residual basis risk. Reflecting the high level of solvency targeted by the Bank, the economic capital framework measures economic capital to a 99.995% confidence level assuming a one-year horizon, except for settlement risk (included in the utilisation for credit risk) and other risks. The amount of economic capital set aside for settlement risk and other risks is based on an assessment by Management. The Bank's economic capital framework is subject to regular review and calibration.

The following table summarises the Bank's economic capital allocation and utilisation for credit risk, market risk, operational risk and other risks:

As at 31 March

	2016		2015	
SDR millions	Allocation	Utilisation	Allocation	Utilisation
Insolvency and transfer risk	9,100.0	7,789.1	8,800.0	8,102.7
FX settlement risk	300.0	300.0	300.0	300.0
Credit risk	9,400.0	8,089.1	9,100.0	8,402.7
Market risk	4,000.0	3,491.1	3,900.0	3,434.7
Operational risk	1,200.0	1,200.0	1,200.0	1,200.0
Other risks	300.0	300.0	300.0	300.0
Economic capital cushion	2,300.0	2,300.0	2,300.0	2,300.0
Total economic capital	**17,200.0**	**15,380.2**	16,800.0	15,637.4

3. Financial leverage

The Bank complements its capital adequacy assessment with a prudently managed financial leverage framework. The Bank monitors its financial leverage using a ratio that compares the BIS adjusted common equity with its total exposure. However, to reflect the scope and nature of its banking activities, the definition of the BIS adjusted common equity limits the recognition of revaluation reserves to the proportion of the gold and securities revaluation reserves that is considered sustainable ("sustainable supplementary capital"). Further, the exposure measure is supplemented by the inclusion of committed and uncommitted facilities, and pension fund assets.

The table below shows the calculation of the Bank's financial leverage ratio:

As at 31 March

SDR millions	**2016**	2015
Share capital and reserves	15,694.2	15,276.9
Sustainable supplementary capital	1,917.0	1,772.1
Share capital, reserves and sustainable supplementary capital	**17,611.2**	17,049.0
Re-measurement losses on defined benefit obligations	(411.2)	(249.0)
Intangible assets	(23.8)	(18.6)
Prudential adjustments	**(435.0)**	(267.6)
Total BIS adjusted common equity (A)	**17,176.2**	16,781.4
Total balance sheet assets	**231,384.4**	216,835.0
Derivatives	(498.1)	(609.3)
Securities purchased under resale agreements	–	20.9
Committed and uncommitted facilities	4,427.2	4,295.4
Pension fund assets	1,048.2	1,121.1
Exposure adjustments	**4,977.3**	4,828.1
Total BIS exposure (B)	**236,361.7**	221,663.1
BIS leverage ratio (A) / (B)	**7.3%**	7.6%

The Bank also calculates a leverage ratio that is consistent with Basel III recommendations. The Bank's Basel III leverage ratio differs from the BIS leverage ratio in using Common Equity Tier 1 as its capital measure instead of BIS adjusted common equity as defined above. The calculation of Common Equity Tier 1 capital is included in note 4B. At 31 March 2016 the Bank's Basel III leverage ratio stood at 7.6% (2015: 8.0%).

4. Capital ratios

The economic capital framework and the financial leverage framework described above are the main tools used for assessing the Bank's capital adequacy. Risk-weighted assets, minimum capital requirements and capital ratios are disclosed to facilitate comparability. Guidance issued by the BCBS includes several approaches for calculating risk-weighted assets and the corresponding minimum capital requirements. In principle, the minimum capital requirements are determined by taking 8% of the risk-weighted assets.

For credit risk, the Bank has adopted the advanced internal ratings-based approach for the majority of its exposures. Under this approach, the risk weighting for a transaction is determined by the relevant Basel II risk weight function using the Bank's own estimates for key inputs. Expected loss is calculated for credit risk exposures subject to the advanced internal ratings-based approach. The expected loss is calculated at the balance sheet date taking into account any impairment provision which is reflected in the Bank's financial statements. The Bank had no impaired financial assets at 31 March 2016 (2015: nil). In accordance with the requirements of the Basel framework, the expected loss is compared with the impairment provision and any shortfall is deducted from the Bank's Tier 1 capital. For securitisation exposures and relevant other assets, the Bank has adopted the standardised approach. Under this approach, risk weightings are mapped to exposure types.

Risk-weighted assets for market risk are derived following an internal models approach. For operational risk, the advanced measurement approach is used. Both these approaches rely on value-at-risk (VaR) methodologies.

More details on the assumptions underlying the calculations are provided in the sections on credit risk, market risk and operational risk.

A. Tier 1 capital ratio

The following table summarises the relevant exposure types and approaches as well as the risk-weighted assets and related minimum capital requirements for credit risk, market risk and operational risk under the Basel II framework:

As at 31 March		**2016**			2015		
SDR millions	Approach used	Amount of exposure	Risk-weighted assets (A)	Minimum capital requirement (B)	Amount of exposure	Risk-weighted assets (A)	Minimum capital requirement (B)
Credit risk							
Exposure to sovereigns, banks and corporates	Advanced internal ratings-based approach, where (B) is derived as (A) x 8%	155,351.0	11,244.4	899.6	148,838.8	11,531.8	922.5
Securitisation exposures and other assets	Standardised approach, where (B) is derived as (A) x 8%	540.1	277.0	22.2	1,023.5	371.3	29.7
Market risk							
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	–	8,226.0	658.1	–	9,894.5	791.6
Operational risk							
	Advanced measurement approach, where (A) is derived as (B) / 8%	–	10,476.9	838.2	–	10,396.6	831.7
Total			**30,224.3**	**2,418.1**		32,194.2	2,575.5

The capital ratio measures capital adequacy by comparing the Bank's Tier 1 capital with its risk-weighted assets. The Tier 1 capital ratio, consistent with the Basel II framework, is provided in the table below:

As at 31 March

SDR millions	**2016**	2015
Share capital and reserves	15,694.2	15,276.9
Re-measurement losses on defined benefit obligations	(411.2)	(249.0)
Tier 1 capital	**15,283.0**	15,027.9
Expected loss	(22.7)	(22.2)
Tier 1 capital net of expected loss (A)	**15,260.3**	15,005.7
Total risk-weighted assets (B)	**30,224.3**	32,194.2
Tier 1 capital ratio (A) / (B)	**50.5%**	46.6%

B. Common Equity Tier 1 capital ratio

To facilitate comparability, information on risk-weighted assets and related minimum capital requirements calculated under the Basel III framework is provided in the following table. Credit risk-weighted assets differ, mainly due to the asset value correlation multiplier for large financial institutions. Basel III risk-weighted assets relating to market risk are calculated as the sum of the Basel II market risk-weighted assets (presented in the previous section) and market risk-weighted assets derived from a stressed VaR.

As at 31 March		**2016**			2015		
SDR millions	Approach used	Amount of exposure	Risk-weighted assets (A)	Minimum capital requirement (B)	Amount of exposure	Risk-weighted assets (A)	Minimum capital requirement (B)
Credit risk							
Exposure to sovereigns, banks and corporates	Advanced internal ratings-based approach, where (B) is derived as (A) x 8%	155,351.0	12,415.2	993.2	148,838.8	12,831.8	1,026.6
Securitisation exposures and other assets	Standardised approach, where (B) is derived as (A) x 8%	540.1	277.0	22.2	1,023.5	371.3	29.7
Market risk							
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	–	24,639.7	1,971.2	–	27,867.9	2,229.4
Operational risk							
	Advanced measurement approach, where (A) is derived as (B) / 8%	–	10,476.9	838.2	–	10,396.6	831.7
Total			**47,808.8**	**3,824.8**		51,467.6	4,117.4

The Common Equity Tier 1 capital ratio calculated under the Basel III framework is set out in the table below:

As at 31 March

SDR millions	**2016**	2015
Share capital and reserves	15,694.2	15,276.9
Revaluation reserves	2,682.7	2,702.3
Share capital, reserves and revaluation reserves	**18,376.9**	17,979.2
Re-measurement losses on defined benefit obligations	(411.2)	(249.0)
Expected loss	(22.7)	(22.2)
Intangible assets	(23.8)	(18.6)
Prudential adjustments	**(457.7)**	(289.8)
Total Common Equity Tier 1 capital (A)	**17,919.2**	17,689.4
Total risk-weighted assets (B)	**47,808.8**	51,467.6
Common Equity Tier 1 capital ratio (A) / (B)	**37.5%**	34.4%

Risk management

1. Risks faced by the Bank

The Bank supports its customers, predominantly central banks, monetary authorities and international financial institutions, in the management of their reserves and related financial activities.

Banking activities form an essential element of meeting the Bank's objectives and ensure its financial strength and independence. The BIS engages in banking activities that are customer-related as well as activities that are related to the investment of its equity, each of which may give rise to financial risk comprising credit risk, market risk and liquidity risk. The Bank is also exposed to operational risk.

Within the risk frameworks defined by the Board of Directors, the Management of the Bank has established risk management policies designed to ensure that risks are identified, appropriately measured and controlled as well as monitored and reported.

2. Risk management approach and organisation

The Bank maintains superior credit quality and adopts a prudent approach to financial risk-taking, by:

- maintaining an exceptionally strong capital position;
- investing its assets predominantly in high credit quality financial instruments;
- seeking to diversify its assets across a range of sectors;
- adopting a conservative approach to its tactical market risk-taking and carefully managing market risk associated with the Bank's strategic positions, which include its gold holdings; and
- maintaining a high level of liquidity.

A. Organisation

Under Article 39 of the Bank's Statutes, the General Manager is responsible to the Board for the management of the Bank, and is assisted by the Deputy General Manager. The Deputy General Manager is responsible for the Bank's independent risk control and compliance functions. The General Manager and the Deputy General Manager are supported by senior management advisory committees.

The key advisory committees are the Executive Committee, the Finance Committee and the Compliance and Operational Risk Committee. The first two committees are chaired by the General Manager and the third by the Deputy General Manager, and all include other senior members of the Bank's Management. The Executive Committee advises the General Manager primarily on the Bank's strategic planning and the allocation of resources, as well as on decisions related to the broad financial objectives for the banking activities and operational risk management. The Finance Committee advises the General Manager on the financial management and policy issues related to the banking business, including the allocation of economic capital to risk categories. The Compliance and Operational Risk Committee acts as an advisory committee to the Deputy General Manager and ensures the coordination of compliance matters and operational risk management throughout the Bank.

The independent risk control function for financial risks is performed by the Risk Control unit. The independent operational risk control function is shared between Risk Control, which maintains the operational risk quantification, and the Compliance and Operational Risk Unit. Both units report directly to the Deputy General Manager.

The Bank's compliance function is performed by the Compliance and Operational Risk Unit. The objective of this function is to provide reasonable assurance that the activities of the Bank and its staff conform to applicable laws and regulations, the BIS Statutes, the Bank's Code of Conduct and other internal rules, policies and relevant standards of sound practice.

The Compliance and Operational Risk Unit identifies and assesses compliance risks and guides and educates staff on compliance issues. The Head of the Compliance and Operational Risk Unit also has a direct reporting line to the Audit Committee, which is an advisory committee to the Board of Directors.

The Finance unit and the Legal Service complement the Bank's risk management. The Finance unit operates an independent valuation control function, produces the Bank's financial statements and controls the Bank's expenditure by setting and monitoring the annual budget. The objective of the independent valuation control function is to ensure that the Bank's valuations comply with its valuation policy and procedures. The Finance unit reports to the Deputy General Manager and the Secretary General.

The Legal Service provides legal advice and support covering a wide range of issues relating to the Bank's activities. The Legal Service has a direct reporting line to the General Manager.

The Internal Audit function reviews internal control procedures and reports on how they comply with internal standards and industry best practices. The scope of internal audit work includes the review of risk management procedures, internal control systems, information systems and governance processes. Internal Audit has reporting lines to the General Manager and the Deputy General Manager, and to the Audit Committee.

B. Risk monitoring and reporting

The Bank's financial and operational risk profile, position and performance are monitored on an ongoing basis by the relevant units. Financial risk and compliance reports aimed at various management levels are provided regularly to enable Management to adequately assess the Bank's risk profile and financial condition.

Management reports financial and risk information to the Board of Directors on a monthly and a quarterly basis. Furthermore, the Audit Committee receives regular reports from Internal Audit, the Compliance and Operational Risk Unit and the Finance unit. The Banking and Risk Management Committee, another advisory committee to the Board, receives regular reports from the Risk Control unit. The preparation of reports is subject to comprehensive policies and procedures, thus ensuring strong controls.

C. Risk methodologies

The Bank revalues virtually all of its financial instruments to fair value on a daily basis and reviews its valuations monthly, taking into account necessary adjustments for impairment. It uses a comprehensive range of quantitative methodologies for valuing financial instruments and for measuring risk to its net profit and equity. The Bank reassesses its quantitative methodologies in the light of its changing risk environment and evolving best practice.

The Bank's model validation policy defines the roles and responsibilities and processes related to the implementation of new or materially changed risk and valuation models.

A key methodology used by the Bank to measure and manage risk is the calculation of economic capital based on value-at-risk (VaR) techniques. VaR expresses the statistical estimate of the maximum potential loss on the current positions of the Bank measured to a specified level of confidence and a specified time horizon. VaR models depend on statistical assumptions and the quality of available market data and, while forward-looking, they extrapolate from past events. VaR models may underestimate potential losses if changes in risk factors fail to align with the distribution assumptions. VaR figures do not provide any information on losses that may occur beyond the assumed confidence level.

The Bank's economic capital framework covers credit risk, market risk, operational risk and other risks. As part of the annual capital planning process, the Bank allocates economic capital to the above risk categories commensurate with principles set by the Board and taking account of the business strategy. Reflecting the high level of solvency targeted by the Bank, the economic capital framework measures economic capital to a 99.995% confidence level assuming a one-year holding period. An additional amount of economic capital is set aside for settlement risk (included in the utilisation for credit risk) and "other risks" based on Management's assessment of risks which are not reflected in the economic capital calculations. Moreover, capital is also allocated to an "economic capital cushion" that is based on stress tests that explore extreme but still plausible default events. The economic capital cushion provides an additional margin of safety to sustain a potential material loss without the need to reduce the capital allocated to individual risk categories or to liquidate any holdings of assets.

The management of the Bank's capital adequacy is complemented by a comprehensive stress testing framework, and a prudent financial leverage framework. The stress testing framework supplements the Bank's risk assessment including its VaR and economic capital calculations for financial risk. The Bank's key market risk factors and credit exposures are stress-tested. The stress testing includes the analysis of severe historical and adverse hypothetical macroeconomic scenarios, as well as sensitivity tests of extreme but still plausible movements of the key risk factors identified. The Bank also performs stress tests related to liquidity risk. The financial leverage framework focuses on a ratio that sets the BIS adjusted common equity in relation to its total balance sheet exposure.

3. Credit risk

Credit risk arises because a counterparty may fail to meet its obligations in accordance with the agreed contractual terms and conditions. A financial asset is considered past due when a counterparty fails to make a payment on the contractual due date.

The Bank manages credit risk within a framework and policies set by the Board of Directors and Management. These are complemented by more detailed guidelines and procedures at the level of the independent risk control function.

A. Credit risk assessment

Credit risk is continuously controlled at both a counterparty and an aggregated level. As part of the independent risk control function, individual counterparty credit assessments are performed subject to a well defined internal rating process, involving 18 rating grades. As part of this process, counterparty financial statements and market information are analysed. The rating methodologies depend on the nature of the counterparty. Based on the internal rating and specific counterparty features, the Bank sets a series of credit limits covering individual counterparties and countries. Internal ratings are assigned to all counterparties. In principle, the ratings and related limits are reviewed at least annually. The main assessment criterion in these reviews is the ability of the counterparties to meet interest and principal repayment obligations in a timely manner.

Credit risk limits at the counterparty level are approved by the Bank's Management and fit within a framework set by the Board of Directors.

On an aggregated level, credit risk, including default and country transfer risk, is measured, monitored and controlled based on the Bank's economic capital calculation for credit risk. To calculate economic capital for credit risk, the Bank uses a portfolio VaR model. Management limits the Bank's overall exposure to credit risk by allocating an amount of economic capital to credit risk.

B. Default risk

The following tables show the exposure of the Bank to default risk, without taking into account any collateral held or other credit enhancements available to the Bank. Credit risk is mitigated through the use of collateral and legally enforceable netting or setoff agreements. The corresponding assets and liabilities are not offset on the balance sheet.

The exposures set out in the tables below are based on the carrying value of the assets on the balance sheet as categorised by sector, geographical region and credit quality. The carrying value is the fair value of the financial instruments, including derivatives, except in the case of very short-term financial instruments (sight and notice accounts) and gold, which are shown at amortised cost net of any impairment charge. Commitments are reported at their notional amounts. Gold and gold loans exclude gold bar assets held in custody, and accounts receivable do not include unsettled liability issues, because these items do not represent credit exposures of the Bank.

The vast majority of the Bank's assets are invested in securities issued by governments and financial institutions rated A– or above by at least one of the major external credit assessment institutions. Limitations on the number of high-quality counterparties in these sectors mean that the Bank is exposed to single-name concentration risk.

The Bank conducts an annual review for impairment at the date of each balance sheet. At 31 March 2016 the Bank did not have any financial assets that were considered to be impaired (2015: nil). At 31 March 2016 no financial assets were considered past due (2015: nil). No credit loss was recognised in the current period (2015: nil).

Default risk by asset class and issuer type

The following tables show the exposure of the Bank to default risk by asset class and issuer type, without taking into account any collateral held or other credit enhancements available to the Bank. "Public sector" includes international and other public sector institutions.

As at 31 March 2016

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposures						
Cash and sight accounts	25,729.9	–	117.1	–	–	25,847.0
Gold and gold loans	2,246.7	–	1,109.6	–	–	3,356.3
Treasury bills	37,533.9	2,044.7	–	–	–	39,578.6
Securities purchased under resale agreements	1,609.3	–	46,077.8	8,531.5	–	56,218.6
Loans and advances	491.1	514.3	16,332.0	–	–	17,337.4
Government and other securities	43,567.5	10,415.9	5,123.6	7,692.5	328.9	67,128.4
Derivative financial instruments	177.5	11.9	1,495.2	0.7	–	1,685.3
Accounts receivable	6.1	0.5	27.7	7.5	–	41.8
Total on-balance sheet exposure	**111,362.0**	**12,987.3**	**70,283.0**	**16,232.2**	**328.9**	**211,193.4**
Commitments						
Undrawn secured facilities	3,121.6	–	–	–	–	3,121.6
Total commitments	**3,121.6**	**–**	**–**	**–**	**–**	**3,121.6**
Total exposure	**114,483.6**	**12,987.3**	**70,283.0**	**16,232.2**	**328.9**	**214,315.0**

As at 31 March 2015

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposures						
Cash and sight accounts	11,333.9	–	41.4	–	–	11,375.3
Gold and gold loans	–	–	181.6	–	–	181.6
Treasury bills	33,439.4	486.6	–	–	–	33,926.0
Securities purchased under resale agreements	3,513.0	–	39,012.0	6,478.6	–	49,003.6
Loans and advances	1,407.8	819.2	15,739.2	–	–	17,966.2
Government and other securities	54,025.6	11,883.6	6,381.3	7,797.8	821.9	80,910.2
Derivative financial instruments	293.7	124.7	6,539.3	1.0	–	6,958.7
Accounts receivable	2.9	–	0.2	6.8	–	9.9
Total on-balance sheet exposure	104,016.3	13,314.1	67,895.0	14,284.2	821.9	200,331.5
Commitments						
Undrawn secured facilities	3,096.5	–	–	–	–	3,096.5
Total commitments	3,096.5		–		–	3,096.5
Total exposure	107,112.8	13,314.1	67,895.0	14,284.2	821.9	203,428.0

Default risk by geographical region

The following tables represent the exposure of the Bank to default risk by asset class and geographical region, without taking into account any collateral held or other credit enhancements available to the Bank. The Bank has allocated exposures to regions based on the country of incorporation of each legal entity to which the Bank has exposures.

As at 31 March 2016

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposures					
Cash and sight accounts	21,876.7	3,963.7	6.6	–	25,847.0
Gold and gold loans	3,300.2	–	56.1	–	3,356.3
Treasury bills	10,472.6	20,111.5	6,949.8	2,044.7	39,578.6
Securities purchased under resale agreements	52,975.8	–	3,242.8	–	56,218.6
Loans and advances	11,623.3	4,436.2	763.7	514.2	17,337.4
Government and other securities	33,494.2	7,883.6	19,216.1	6,534.5	67,128.4
Derivative financial instruments	1,280.8	217.2	179.9	7.4	1,685.3
Accounts receivable and other assets	39.9	1.7	0.2	–	41.8
Total on-balance sheet exposure	**135,063.5**	**36,613.9**	**30,415.2**	**9,100.8**	**211,193.4**
Commitments					
Undrawn secured facilities	242.4	2,879.2	–	–	3,121.6
Total commitments	**242.4**	**2,879.2**	**–**	**–**	**3,121.6**
Total exposure	**135,305.9**	**39,493.1**	**30,415.2**	**9,100.8**	**214,315.0**

As at 31 March 2015

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposures					
Cash and sight accounts	8,313.0	3,057.0	5.3	–	11,375.3
Gold and gold loans	181.6	–	–	–	181.6
Treasury bills	10,061.8	19,776.0	3,601.6	486.6	33,926.0
Securities purchased under resale agreements	45,490.6	–	3,513.0	–	49,003.6
Loans and advances	11,418.7	4,552.4	1,489.6	505.5	17,966.2
Government and other securities	43,798.6	8,814.3	20,840.2	7,457.1	80,910.2
Derivative financial instruments	5,124.6	655.4	1,178.7	–	6,958.7
Accounts receivable	8.8	0.9	0.2	–	9.9
Total on-balance sheet exposure	124,397.7	36,856.0	30,628.6	8,449.2	200,331.5
Commitments					
Undrawn secured facilities	233.5	2,863.0	–	–	3,096.5
Total commitments	233.5	2,863.0	–	–	3,096.5
Total exposure	124,631.2	39,719.0	30,628.6	8,449.2	203,428.0

Default risk by counterparty / issuer rating

The following tables show the exposure of the Bank to default risk by class of financial asset and counterparty / issuer rating, without taking into account any collateral held or other credit enhancements available to the Bank. The ratings shown reflect the Bank's internal ratings expressed as equivalent external ratings.

As at 31 March 2016

SDR millions	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposures							
Cash and sight accounts	19,153.4	1,492.9	5,200.1	0.3	0.3	–	25,847.0
Gold and gold loans	–	2,246.7	1,109.6	–	–	–	3,356.3
Treasury bills	2,568.7	11,919.2	21,630.2	3,460.5	–	–	39,578.6
Securities purchased under resale agreements	–	10,140.8	35,739.1	10,338.7	–	–	56,218.6
Loans and advances	721.4	–	15,622.1	497.1	496.8	–	17,337.4
Government and other securities	15,385.6	37,181.1	13,416.9	1,112.2	32.6	–	67,128.4
Derivative financial instruments	0.5	53.7	1,589.8	26.4	3.8	11.1	1,685.3
Accounts receivable	–	0.2	28.2	0.6	1.1	11.7	41.8
Total on-balance sheet exposure	**37,829.6**	**63,034.6**	**94,336.0**	**15,435.8**	**534.6**	**22.8**	**211,193.4**
Commitments							
Undrawn secured facilities	–	930.8	952.4	996.0	242.4	–	3,121.6
Total commitments	**–**	**930.8**	**952.4**	**996.0**	**242.4**	**–**	**3,121.6**
Total exposure	**37,829.6**	**63,965.4**	**95,288.4**	**16,431.8**	**777.0**	**22.8**	**214,315.0**

As at 31 March 2015

SDR millions	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposures							
Cash and sight accounts	8,268.1	48.1	3,057.8	1.0	0.3	–	11,375.3
Gold and gold loans	–	–	181.6	–	–	–	181.6
Treasury bills	3,746.7	7,001.1	19,314.5	3,863.7	–	–	33,926.0
Securities purchased under resale agreements	–	9,991.6	30,334.2	8,677.8	–	–	49,003.6
Loans and advances	813.9	–	16,363.3	426.6	362.4	–	17,966.2
Government and other securities	22,906.1	40,599.6	15,796.9	1,607.6	–	–	80,910.2
Derivative financial instruments	111.5	129.6	6,385.9	320.4	1.6	9.7	6,958.7
Accounts receivable	–	0.2	0.2	0.4	0.7	8.4	9.9
Total on-balance sheet exposure	35,846.3	57,770.2	91,434.4	14,897.5	365.0	18.1	200,331.5
Commitments							
Undrawn secured facilities	–	925.7	946.9	990.3	233.6	–	3,096.5
Total commitments	–	925.7	946.9	990.3	233.6	–	3,096.5
Total exposure	35,846.3	58,695.9	92,381.3	15,887.8	598.6	18.1	203,428.0

C. Credit risk mitigation

Netting

Netting agreements give the Bank a legally enforceable right to net transactions with counterparties under potential future conditions, notably an event of default. Such master netting or similar agreements apply to counterparties with whom the Bank conducts most of its derivative transactions, as well as to counterparties used for repurchase and reverse repurchase agreement transactions. Where required, netting is applied when determining the amount of collateral to be requested or provided, but the Bank does not settle assets and liabilities on a net basis during the normal course of business. As such, the amounts shown on the Bank's balance sheet are the gross amounts.

Collateral

The Bank mitigates credit risk by requiring counterparties to provide collateral. The Bank receives collateral in respect of most derivative contracts, reverse repurchase agreements and for advances made under collateralised facility agreements. During the term of these transactions, further collateral may be called or collateral may be released based on the movements in value of both the underlying instrument and the collateral that has been received. The Bank is required to provide collateral in respect of repurchase agreements.

For derivative contracts and reverse repurchase agreements, the Bank accepts as collateral high-quality sovereign, state agency and supranational securities and, in a limited number of cases, cash. For advances made under collateralised facility agreements, collateral accepted includes currency deposits with the Bank as well as units in the BIS Investment Pools.

Under the terms of its collateral arrangements, the Bank is permitted to sell ("re-hypothecate") collateral received on derivative contracts and reverse repurchase agreements, but upon expiry of the transaction must return equivalent financial instruments to the counterparty. At 31 March 2016 the Bank had not sold any of the collateral it held (2015: nil).

The fair value of collateral held which the Bank had the right to sell was:

As at 31 March

SDR millions	**2016**	2015
Collateral held in respect of:		
Derivatives	247.6	4,003.7
Securities purchased under resale agreements	40,423.5	38,825.4
Total	**40,671.1**	42,829.1

Financial assets and liabilities subject to netting or collateralisation

The tables below show the categories of assets and liabilities which are subject to collateralisation and for which netting agreements potentially apply, eg in the event of default of a counterparty.

The amount of collateral required is usually based on valuations performed on the previous business day, whereas the Bank's balance sheet reflects the valuations of the reporting date. Due to this timing difference, the valuation of collateral can be higher than the valuation of the underlying contract in the Bank's balance sheet. The amount of the collateral obtained is also impacted by thresholds, minimum transfer amounts and valuation adjustments ("haircuts") specified in the contracts. In these tables, the mitigating effect of collateral has been limited to the balance sheet value of the underlying net asset.

As at 31 March 2016		Effect of risk mitigation				Analysed as:	
SDR millions	Gross carrying amount as per balance sheet	Adjustments for settlement date effects	Enforceable netting agreements	Collateral (received) / provided (limited to balance sheet value)	Exposure after risk mitigation	Amounts not subject to risk mitigation agreements	Amounts subject to risk mitigation agreements
Financial assets							
Securities purchased under resale agreements	56,218.6	(14,456.4)	–	(41,762.2)	–	–	–
Advances	496.8	–	–	(496.8)	–	–	–
Derivative financial assets	1,685.3	–	(1,357.8)	(168.6)	158.9	106.9	52.0
Financial liabilities							
Securities sold under repurchase agreements	(1,447.7)	203.0	–	1,244.7	.	.	.
Derivative financial liabilities	(3,902.2)	–	1,357.8	–	.	.	.

As at 31 March 2015		Effect of risk mitigation				Analysed as:	
SDR millions	Gross carrying amount as per balance sheet	Adjustments for settlement date effects	Enforceable netting agreements	Collateral (received) / provided (limited to balance sheet value)	Exposure after risk mitigation	Amounts not subject to risk mitigation agreements	Amounts subject to risk mitigation agreements
Financial assets							
Securities purchased under resale agreements	49,003.6	(6,813.4)	–	(42,169.2)	21.0	–	21.0
Advances	1,413.1	–	–	(1,413.1)	–	–	–
Derivative financial assets	6,958.7	–	(2,001.8)	(3,961.1)	995.8	81.8	914.0
Financial liabilities							
Securities sold under repurchase agreements	(773.3)	–	–	773.1	.	.	.
Derivative financial liabilities	(2,162.2)	–	2,001.8	–	.	.	.

D. Economic capital for credit risk

The Bank determines economic capital for credit risk, except for settlement risk, using a VaR methodology on the basis of a portfolio VaR model, assuming a one-year time horizon and a 99.995% confidence level. The amount of economic capital for settlement risk included in the credit risk utilisation reflects an amount assessed by Management.

For the financial year	**2016**				2015			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for credit risk	8,498.9	9,182.0	7,785.6	**8,089.1**	8,124.1	8,970.1	7,372.6	8,402.7

E. Minimum capital requirements for credit risk

Exposure to sovereigns, banks and corporates

For the calculation of risk-weighted assets for exposures to banks, sovereigns and corporates, the Bank has adopted an approach that is consistent with the advanced internal ratings-based approach.

As a general rule, under this approach risk-weighted assets are determined by multiplying the credit risk exposures with risk weights derived from the relevant Basel II risk weight function using the Bank's own estimates for key inputs. These estimates for key inputs are also relevant to the Bank's economic capital calculation for credit risk.

The credit risk exposure for a transaction or position is referred to as the exposure at default (EAD). The Bank determines the EAD as the notional amount of on- and off-balance sheet credit exposures, except for securities and derivative contracts. The EAD for derivatives is calculated using an approach consistent with the internal models method proposed under the Basel II framework. In line with this methodology, the Bank calculates effective expected positive exposures that are then multiplied by a factor alpha as set out in the framework.

Key inputs to the risk weight function are a counterparty's estimated one-year probability of default (PD) as well as the estimated loss-given-default (LGD) and maturity for each transaction.

Due to the high credit quality of the Bank's investments and the conservative credit risk management process at the BIS, the Bank is not in a position to estimate PDs and LGDs based on its own default experience. The Bank calibrates each counterparty PD estimate through a mapping of internal rating grades to external credit assessments taking external default data into account. Similarly, LGD estimates are derived from external data. Where appropriate, these estimates are adjusted to reflect the risk-reducing effects of collateral obtained giving consideration to market price volatility, re-margining and revaluation frequency. The recognition of the risk-reducing effects of collateral obtained for derivative contracts, reverse repurchase agreements and collateralised advances is accounted for in calculating the EAD.

The table below details the calculation of risk-weighted assets. The exposures are measured taking netting and collateral benefits into account. The total amount of exposures reported in the table as at 31 March 2016 includes SDR 118.9 million for interest rate contracts (2015: SDR 184.5 million) and SDR 283.5 million for FX and gold contracts (2015: SDR 1,229.5 million). In line with the Basel II framework, the minimum capital requirement is determined as 8% of risk-weighted assets.

As at 31 March 2016

Internal rating grades expressed as equivalent external rating grades *SDR millions / percentages*	Amount of exposure *SDR millions*	Exposure-weighted PD *%*	Exposure-weighted average LGD *%*	Exposure-weighted average risk weight *%*	Risk-weighted assets *SDR millions*
AAA	37,006.0	0.01	35.7	2.4	879.5
AA	54,277.8	0.02	39.6	6.4	3,496.3
A	58,498.3	0.04	48.4	9.1	5,296.6
BBB	5,518.4	0.17	51.1	27.6	1,525.0
BB and below	50.5	1.20	53.4	93.1	47.0
Total	**155,351.0**				**11,244.4**

As at 31 March 2015

Internal rating grades expressed as equivalent external rating grades *SDR millions / percentages*	Amount of exposure *SDR millions*	Exposure-weighted PD *%*	Exposure-weighted average LGD *%*	Exposure-weighted average risk weight *%*	Risk-weighted assets *SDR millions*
AAA	34,886.4	0.01	35.6	2.9	1,024.7
AA	52,401.7	0.02	39.6	7.0	3,662.2
A	55,387.4	0.04	48.6	9.4	5,227.3
BBB	6,154.7	0.16	50.8	26.2	1,610.7
BB and below	8.6	1.32	50.7	80.3	6.9
Total	148,838.8				11,531.8

At 31 March 2016 the minimum capital requirement for credit risk related to exposures to sovereigns, banks and corporates amounted to SDR 899.6 million (2015: SDR 922.5 million).

The table below summarises the impact of collateral arrangements on the amount of credit exposure after taking netting into account:

SDR millions	Amount of exposure after taking netting into account	Benefits from collateral arrangements	Amount of exposure after taking into account netting and collateral arrangements
As at 31 March 2016	213,873.1	58,522.1	**155,351.0**
As at 31 March 2015	204,224.3	55,385.5	148,838.8

Securitisation exposures

The Bank invests in highly rated securitisation exposures based on traditional, ie non-synthetic, securitisation structures. Given the scope of the Bank's activities, risk-weighted assets under the Basel II framework are determined according to the standardised approach for securitisation. Under this approach, external credit assessments of the securities are used to determine the relevant risk weights. External credit assessment institutions used for this purpose are Moody's Investors Service, Standard & Poor's and Fitch Ratings. Risk-weighted assets are then derived as the product of the market values of the exposures and the associated risk weights. In line with the Basel II framework, the minimum capital requirement is determined as 8% of risk-weighted assets.

The following table shows the Bank's investments in securitisation analysed by type of securitised assets:

As at 31 March 2016

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Residential mortgage-backed securities	A	–	50%	–
Securities backed by other receivables (government-sponsored)	AAA	328.9	20%	65.8
Total		**328.9**		**65.8**

As at 31 March 2015

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Residential mortgage-backed securities	A	17.5	50%	8.8
Securities backed by other receivables (government-sponsored)	AAA	804.4	20%	160.9
Total		821.9		169.7

At 31 March 2016 the minimum capital requirement for securitisation exposures amounted to SDR 5.3 million (2015: SDR 13.6 million).

4. Market risk

The Bank is exposed to market risk through adverse movements in market prices. The main components of the Bank's market risk are gold price risk, interest rate risk and foreign exchange risk. The Bank measures market risk and calculates economic capital based on a VaR methodology using a Monte Carlo simulation technique. Risk factor volatilities and correlations are estimated, subject to an exponential weighting scheme, over a six-year observation period. Furthermore, the Bank computes sensitivities to certain market risk factors.

In line with the Bank's objective of maintaining its superior credit quality, economic capital is measured at the 99.995% confidence level assuming a one-year holding period. The Bank calculates the economic capital utilisation for market risk on the basis of a stressed market data set. The Bank's Management manages market risk economic capital usage within a framework set by the Board of Directors. VaR limits are supplemented by operating limits.

To ensure that models provide a reliable measure of potential losses over the one-year time horizon, the Bank has established a comprehensive regular backtesting framework, comparing daily performance with corresponding VaR estimates. The results are analysed and reported to Management.

The Bank also supplements its market risk measurement based on VaR modelling and related economic capital calculations with a series of stress tests. These include severe historical scenarios, adverse hypothetical macroeconomic scenarios and sensitivity tests of gold price, interest rate and foreign exchange rate movements.

A. Gold price risk

Gold price risk is the exposure of the Bank's financial condition to adverse movements in the price of gold.

The Bank is exposed to gold price risk principally through its holdings of gold investment assets, which amount to 104 tonnes (2015: 108 tonnes). These gold investment assets are held in custody or placed on deposit with commercial banks. At 31 March 2016 the Bank's net gold investment assets amounted to SDR 2,944.6 million (2015: SDR 2,998.3 million), approximately 16% of its equity (2015: 16%). The Bank sometimes also has small exposures to gold price risk arising from its banking activities with central and commercial banks. Gold price risk is measured within the Bank's VaR methodology, including its economic capital framework and stress tests.

B. Interest rate risk

Interest rate risk is the exposure of the Bank's financial condition to adverse movements in interest rates including credit spreads. The Bank is exposed to interest rate risk through the interest-bearing assets relating to the management of its equity held in its investment portfolios and investments relating to its banking portfolios. The investment portfolios are managed using a fixed-duration benchmark of bonds.

The Bank measures and monitors interest rate risk using a VaR methodology and sensitivity analyses taking into account movements in relevant money market rates, government bond yields, swap rates and credit spreads.

The tables below show the impact on the Bank's equity of a 1% upward shift in the relevant yield curve per time band:

As at 31 March 2016

SDR millions	Up to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Euro	(1.3)	(5.5)	(33.5)	1.5	(45.6)	(48.3)	(74.0)	(206.7)
Japanese yen	1.5	(0.3)	0.2	(0.2)	–	–	–	1.2
Pound sterling	(1.6)	(0.8)	(10.4)	(17.0)	(19.7)	(5.8)	–	(55.3)
Swiss franc	7.5	(0.4)	(0.8)	(0.2)	–	–	1.4	7.5
US dollar	(2.7)	(12.2)	(37.8)	(56.5)	(51.3)	(59.2)	(7.7)	(227.4)
Other currencies	1.0	0.2	(1.2)	(1.0)	(1.0)	(0.6)	0.1	(2.5)
Total	**4.4**	**(19.0)**	**(83.5)**	**(73.4)**	**(117.6)**	**(113.9)**	**(80.2)**	**(483.2)**

As at 31 March 2015

SDR millions	Up to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Euro	(6.5)	(13.5)	(11.6)	(28.8)	(40.5)	(36.5)	(12.6)	(150.0)
Japanese yen	(1.1)	(1.8)	0.1	(0.1)	–	–	–	(2.9)
Pound sterling	(1.2)	(1.6)	(8.5)	(15.6)	(20.0)	(6.8)	0.3	(53.4)
Swiss franc	5.7	(1.1)	(1.3)	(1.2)	(0.3)	–	3.5	5.3
US dollar	(1.7)	(13.0)	(40.8)	(49.3)	(66.1)	(63.6)	(3.1)	(237.6)
Other currencies	–	0.2	(0.7)	(1.4)	(1.8)	(1.3)	(0.4)	(5.4)
Total	(4.8)	(30.8)	(62.8)	(96.4)	(128.7)	(108.2)	(12.3)	(444.0)

C. Foreign exchange risk

The Bank's functional currency, the SDR, is a composite currency comprising fixed amounts of USD, EUR, JPY and GBP. Currency risk is the exposure of the Bank's financial condition to adverse movements in exchange rates. The Bank is exposed to foreign exchange risk primarily through the assets relating to the management of its equity. The Bank is also exposed to foreign exchange risk through managing its customer deposits and through acting as an intermediary in foreign exchange transactions. The Bank reduces its foreign exchange exposures by matching the relevant assets to the constituent currencies of the SDR on a regular basis, and by limiting currency exposures arising from customer deposits and foreign exchange transaction intermediation.

The following tables show the Bank's assets and liabilities by currency and gold exposure. The net foreign exchange and gold position in these tables therefore includes the Bank's gold investments. To determine the Bank's net foreign exchange exposure, the gold amounts need to be removed. The SDR-neutral position is then deducted from the net foreign exchange position excluding gold to arrive at the net currency exposure of the Bank on an SDR-neutral basis.

As at 31 March 2016

SDR millions	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts	–	5.6	13,066.4	3.6	3,842.9	8,606.0	–	322.5	25,847.0
Gold and gold loans	–	2.8	–	–	–	–	13,174.0	–	13,176.8
Treasury bills	–	6,486.4	10,900.5	507.6	19,660.0	–	–	2,024.1	39,578.6
Securities purchased under resale agreements	–	4,821.6	39,462.2	10,103.7	1,831.1	–	–	–	56,218.6
Loans and advances	514.2	7,453.0	5,158.2	1,476.1	5.6	(2.6)	–	2,732.9	17,337.4
Government and other securities	–	31,211.5	22,081.3	6,323.8	1,328.0	–	–	6,183.8	67,128.4
Derivative financial instruments	(1,035.6)	(2,773.4)	5,017.6	(852.7)	3.1	639.2	–	687.1	1,685.3
Accounts receivable	–	7,971.2	211.5	87.5	–	9.0	–	1,936.7	10,215.9
Land, buildings and equipment	184.5	–	–	–	–	11.9	–	–	196.4
Total assets	**(336.9)**	**55,178.7**	**95,897.7**	**17,649.6**	**26,670.7**	**9,263.5**	**13,174.0**	**13,887.1**	**231,384.4**
Liabilities									
Gold deposits	–	–	–	–	–	–	(10,227.6)	–	(10,227.6)
Currency deposits	(2,048.6)	(135,519.5)	(19,604.2)	(11,849.9)	(1,791.2)	(359.1)	–	(7,618.0)	(178,790.5)
Securities sold under repurchase agreements	–	(569.1)	(878.6)	–	–	–	–	–	(1,447.7)
Derivative financial instruments	3,588.4	89,641.8	(57,575.9)	(3,820.3)	(22,362.5)	(8,297.1)	(0.1)	(5,076.5)	(3,902.2)
Accounts payable	–	(1,810.2)	(12,811.7)	(301.6)	(1,421.1)	–	–	(1,204.2)	(17,548.8)
Other liabilities	–	(0.5)	–	–	–	(1,087.4)	–	(1.1)	(1,089.0)
Total liabilities	**1,539.8**	**(48,257.5)**	**(90,870.4)**	**(15,971.8)**	**(25,574.8)**	**(9,743.6)**	**(10,227.7)**	**(13,899.8)**	**(213,005.8)**
Net currency and gold position	**1,202.9**	**6,921.2**	**5,027.3**	**1,677.8**	**1,095.9**	**(480.1)**	**2,946.3**	**(12.7)**	**18,378.6**
Adjustment for gold	–	–	–	–	–	–	(2,946.3)	–	(2,946.3)
Net currency position	**1,202.9**	**6,921.2**	**5,027.3**	**1,677.8**	**1,095.9**	**(480.1)**	**–**	**(12.7)**	**15,432.3**
SDR-neutral position	(1,202.9)	(6,661.9)	(4,864.5)	(1,615.0)	(1,088.0)	–	–	–	**(15,432.3)**
Net currency exposure on SDR-neutral basis	**–**	**259.3**	**162.8**	**62.8**	**7.9**	**(480.1)**	**–**	**(12.7)**	**–**

As at 31 March 2015

SDR millions	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts	–	39.2	41.0	0.8	3,047.6	8,233.8	–	12.9	11,375.3
Gold and gold loans	–	0.9	–	–	–	–	14,154.6	–	14,155.5
Treasury bills	–	2,135.2	10,307.2	62.4	17,403.6	–	–	4,017.6	33,926.0
Securities purchased under resale agreements	–	5,686.7	27,415.5	14,832.7	1,068.6	–	–	0.1	49,003.6
Loans and advances	505.6	9,830.0	3,565.1	1,564.7	428.1	(2.1)	–	2,074.8	17,966.2
Government and other securities	–	33,771.5	29,973.7	6,988.2	4,205.8	–	–	5,971.0	80,910.2
Derivative financial instruments	2,744.9	79,188.3	(38,215.4)	(8,693.4)	(18,067.8)	(3,541.8)	(1,295.7)	(5,160.4)	6,958.7
Accounts receivable	–	1,133.0	1,096.0	43.1	–	6.7	–	66.6	2,345.4
Land, buildings and equipment	184.6	–	–	–	–	9.6	–	(0.1)	194.1
Total assets	3,435.1	131,784.8	34,183.1	14,798.5	8,085.9	4,706.2	12,858.9	6,982.5	216,835.0
Liabilities									
Gold deposits	–	–	–	–	–	–	(9,857.3)	–	(9,857.3)
Currency deposits	(3,614.6)	(130,280.1)	(22,739.9)	(10,853.9)	(1,590.7)	(377.8)	–	(7,385.0)	(176,842.0)
Securities sold under repurchase agreements	–	–	(478.0)	(295.3)	–	–	–	–	(773.3)
Derivative financial instruments	244.7	8,057.1	(564.4)	(1,715.3)	(5,012.6)	(3,823.2)	(0.4)	651.9	(2,162.2)
Accounts payable	–	(2,135.6)	(5,372.9)	(58.4)	(483.1)	–	–	0.1	(8,049.9)
Other liabilities	–	(0.6)	–	–	–	(876.3)	–	(0.3)	(877.2)
Total liabilities	(3,369.9)	(124,359.2)	(29,155.2)	(12,922.9)	(7,086.4)	(5,077.3)	(9,857.7)	(6,733.3)	(198,561.9)
Net currency and gold position	65.2	7,425.6	5,027.9	1,875.6	999.5	(371.1)	3,001.2	249.2	18,273.1
Adjustment for gold	–	–	–	–	–	–	(3,001.2)	–	(3,001.2)
Net currency position	65.2	7,425.6	5,027.9	1,875.6	999.5	(371.1)	–	249.2	15,271.9
SDR-neutral position	(65.2)	(7,272.0)	(5,006.8)	(1,816.9)	(1,111.0)	–	–	–	(15,271.9)
Net currency exposure on SDR-neutral basis	–	153.6	21.1	58.7	(111.5)	(371.1)	–	249.2	–

D. Economic capital for market risk

The Bank measures market risk based on a VaR methodology using a Monte Carlo simulation technique taking correlations between risk factors into account. Economic capital for market risk is also calculated following this methodology measured to the 99.995% confidence level and assuming a one-year holding period. The Bank calculates the economic capital utilisation for market risk on the basis of a stressed market data set. The stressed data set is subject to regular review and calibrated to take account of the Bank's key market risk exposures and market risk drivers.

The Bank measures its gold price risk relative to changes in the USD value of gold. The foreign exchange risk component, resulting from changes in the USD exchange rate versus the SDR, is included in the measurement of foreign exchange risk. The table below shows the key figures of the Bank's exposure to market risk in terms of economic capital utilisation over the past two financial years:

For the financial year	**2016**				2015			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for market risk	3,310.7	3,539.6	3,132.9	**3,491.1**	3,282.6	3,509.8	3,074.3	3,434.7

The table below provides a further analysis of the Bank's economic capital utilisation for market risk by category of risk:

For the financial year	**2016**				2015			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Gold price risk	2,030.8	2,323.6	1,871.2	**2,227.1**	2,111.1	2,278.1	1,960.7	2,125.5
Interest rate risk	2,485.8	2,662.9	2,311.9	**2,402.2**	2,356.4	2,680.3	2,017.3	2,562.2
Foreign exchange risk	843.3	973.2	653.8	**669.1**	895.9	985.5	789.6	912.0
Diversification effects	(2,049.2)	(2,346.9)	(1,782.3)	**(1,807.3)**	(2,080.8)	(2,446.2)	(1,878.4)	(2,165.0)
Total				**3,491.1**				3,434.7

E. Minimum capital requirements for market risk

For the calculation of minimum capital requirements for market risk under the Basel II framework, the Bank has adopted a banking book approach consistent with the scope and nature of its business activities. Consequently, market risk-weighted assets are determined for gold price risk and foreign exchange risk, but not interest rate risk. The related minimum capital requirement is derived using the VaR-based internal models method. Under this method, VaR calculations are performed using the Bank's VaR methodology, assuming a 99% confidence level and a 10-day holding period.

The actual minimum capital requirement is derived as the higher of the VaR on the calculation date and the average of the daily VaR measures on each of the preceding 60 business days (including the calculation date) subject to a multiplication factor of three plus a potential add-on depending on backtesting results. For the period under consideration, the number of backtesting outliers observed remained within the range where no add-on is required. The table below summarises the market risk development relevant to the calculation of minimum capital requirements and the related risk-weighted assets over the reporting period.

As at 31 March	**2016**			2015		
SDR millions	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)
Market risk, where (A) is derived as (B) / 8%	219.4	8,226.0	**658.1**	263.9	9,894.5	791.6

5. Operational risk

Operational risk is defined by the Bank as the risk of financial loss, or damage to the Bank's reputation, or both, resulting from one or more risk causes, as outlined below:

- Human factors: insufficient personnel, lack of requisite knowledge, skills or experience, inadequate training and development, inadequate supervision, loss of key personnel, inadequate succession planning, or lack of integrity or ethical standards.
- Failed or inadequate processes: a process is poorly designed or unsuitable, or is not properly documented, understood, implemented, followed or enforced.
- Failed or inadequate systems: a system is poorly designed, unsuitable or unavailable, or does not operate as intended.
- External events: the occurrence of an event having an adverse impact on the Bank but outside its control.

Operational risk includes legal risk, but excludes strategic risk.

The Bank's operational risk management framework, policies and procedures comprise the management and measurement of operational risk, including the determination of the relevant key parameters and inputs, business continuity planning and the monitoring of key risk indicators.

The Bank has established a procedure of immediate reporting for operational risk-related incidents. The Compliance and Operational Risk Unit develops action plans with the respective units and follows up on their implementation on a regular basis.

For the measurement of operational risk economic capital and operational risk-weighted assets, the Bank has adopted a VaR approach using a Monte Carlo simulation technique that is consistent with the advanced measurement approach proposed under the Basel II framework. In line with the assumptions of the Basel II framework, the quantification of operational risk does not take reputational risk into account. Internal and external loss data, scenario estimates and control self-assessments to reflect changes in the business and control environment of the Bank are key inputs in the calculations. In quantifying its operational risk, the Bank does not take potential protection it may obtain from insurance into account.

A. Economic capital for operational risk

Consistent with the parameters used in the calculation of economic capital for financial risk, the Bank measures economic capital for operational risk to the 99.995% confidence level assuming a one-year holding period. The table below shows the key figures of the Bank's exposure to operational risk in terms of economic capital utilisation over the past two financial years:

For the financial year	**2016**				2015			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for operational risk	1,200.0	1,200.0	1,200.0	**1,200.0**	1,200.0	1,200.0	1,200.0	1,200.0

B. Minimum capital requirements for operational risk

In line with the key parameters of the Basel II framework, the calculation of the minimum capital requirement for operational risk is determined assuming a 99.9% confidence level and a one-year time horizon. The table below shows the minimum capital requirements for operational risk and related risk-weighted assets:

As at 31 March	**2016**			2015		
SDR millions	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)
Operational risk, where (A) is derived as (B) / 8%	838.2	10,476.9	**838.2**	831.7	10,396.6	831.7

6. Liquidity risk

Liquidity risk arises when the Bank may not be able to meet expected or unexpected current or future cash flows and collateral needs without affecting its daily operations or its financial condition.

The Bank's currency and gold deposits, principally from central banks and international institutions, comprise 89% (2015: 94%) of its total liabilities. At 31 March 2016 currency and gold deposits originated from 167 depositors (2015: 166 depositors). Within these deposits, there are significant individual customer concentrations, with five customers each contributing in excess of 5% of the total on a settlement date basis (2015: four customers).

Outstanding balances in the currency and gold deposits from central banks, international organisations and other public institutions are the key drivers of the size of the Bank's balance sheet. The Bank is exposed to funding liquidity risk mainly because of the short-term nature of its deposits and because it undertakes to repurchase at fair value certain of its currency deposit instruments at one or two business days' notice. In line with the Bank's objective to maintain a high level of liquidity, it has developed a liquidity management framework, including a ratio, based on conservative assumptions for estimating the liquidity available and the liquidity required.

A. Maturity profile of cash flows

The following tables show the maturity profile of cash flows for assets and liabilities. The amounts disclosed are the undiscounted cash flows to which the Bank is committed. Options are included in the table at fair value and are shown in the "Up to 1 month" category.

As at 31 March 2016

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Over 10 years	Total
Assets									
Cash and sight accounts	25,847.0	–	–	–	–	–	–	–	25,847.0
Gold and gold loans	10,846.2	585.1	–	1,755.6	–	–	–	–	13,186.9
Treasury bills	6,209.4	13,918.6	8,710.5	9,846.8	–	–	–	–	38,685.3
Securities purchased under resale agreements	33,583.8	7,933.9	242.1	–	–	–	–	–	41,759.8
Loans and advances	5,406.9	9,111.1	2,614.2	27.6	–	–	–	–	17,159.8
Government and other securities	2,622.7	3,482.1	12,018.0	14,778.3	10,389.7	21,898.0	2,550.4	40.6	67,779.8
Total assets	**84,516.0**	**35,030.8**	**23,584.8**	**26,408.3**	**10,389.7**	**21,898.0**	**2,550.4**	**40.6**	**204,418.6**
Liabilities									
Gold deposits	(10,198.7)	(28.9)	–	–	–	–	–	–	(10,227.6)
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(14,238.8)	(18,088.1)	(10,620.8)	(14,592.2)	(13,238.7)	(12,219.5)	(66.1)	–	(83,064.2)
Other currency deposits	(58,332.2)	(13,950.4)	(6,417.8)	(8,436.4)	(650.1)	–	–	–	(87,786.9)
Securities sold under repurchase agreements	(1,041.6)	(202.9)	–	–	–	–	–	–	(1,244.5)
Total liabilities	**(83,811.3)**	**(32,270.3)**	**(17,038.6)**	**(23,028.6)**	**(13,888.8)**	**(12,219.5)**	**(66.1)**	**–**	**(182,323.2)**
Derivatives									
Net cash flows									
Options and interest rate contracts	(3.0)	22.9	(5.5)	113.8	13.7	(38.1)	(6.0)	–	97.8
Gross cash flows									
Interest rate contracts									
Inflows	80.2	29.9	3.4	77.3	536.9	510.9	–	–	1,238.6
Outflows	(75.5)	(28.7)	–	(74.9)	(544.8)	(524.5)	–	–	(1,248.4)
Subtotal	4.7	1.2	3.4	2.4	(7.9)	(13.6)	–	–	(9.8)
Currency and gold contracts									
Inflows	73,473.9	36,669.6	12,211.7	14,267.4	–	–	–	–	136,622.6
Outflows	(74,426.1)	(37,186.8)	(12,485.2)	(14,605.9)	–	–	–	–	(138,704.0)
Subtotal	(952.2)	(517.2)	(273.5)	(338.5)	–	–	–	–	(2,081.4)
Total derivatives	**(950.5)**	**(493.1)**	**(275.6)**	**(222.3)**	**5.8**	**(51.7)**	**(6.0)**	**–**	**(1,993.4)**
Total future undiscounted cash flows	**(245.8)**	**2,267.4**	**6,270.6**	**3,157.4**	**(3,493.3)**	**9,626.8**	**2,478.3**	**40.6**	**20,102.0**

As at 31 March 2015

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Over 10 years	Total
Assets									
Cash and sight accounts	11,375.3	–	–	–	–	–	–	–	11,375.3
Gold and gold loans	12,639.9	827.5	–	691.0	–	–	–	–	14,158.4
Treasury bills	4,752.7	15,038.4	7,598.0	5,583.9	–	–	–	–	32,973.0
Securities purchased under resale agreements	28,140.9	13,535.3	517.0	–	–	–	–	–	42,193.2
Loans and advances	9,079.8	8,799.4	93.4	–	–	–	–	–	17,972.6
Government and other securities	3,312.7	4,593.7	12,261.5	21,397.8	12,860.2	25,582.6	2,020.7	–	82,029.2
Total assets	69,301.3	42,794.3	20,469.9	27,672.7	12,860.2	25,582.6	2,020.7	–	200,701.7
Liabilities									
Gold deposits	(9,857.3)	–	–	–	–	–	–	–	(9,857.3)
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(9,814.2)	(17,307.7)	(18,554.9)	(21,340.4)	(18,456.3)	(18,009.0)	(120.6)	–	(103,603.1)
Other currency deposits	(40,084.7)	(13,764.9)	(8,002.0)	(9,726.5)	–	–	–	–	(71,578.1)
Securities sold under repurchase agreements	(773.3)	–	–	–	–	–	–	–	(773.3)
Total liabilities	(60,529.5)	(31,072.6)	(26,556.9)	(31,066.9)	(18,456.3)	(18,009.0)	(120.6)	–	(185,811.8)
Derivatives									
Net cash flows									
Options and interest rate contracts	4.8	63.8	85.4	93.6	87.3	(14.4)	(2.8)	–	317.7
Gross cash flows									
Interest rate contracts									
Inflows	80.1	44.7	0.5	352.8	108.1	–	–	–	586.2
Outflows	(65.1)	(40.5)	–	(323.1)	(97.7)	–	–	–	(526.4)
Subtotal	15.0	4.2	0.5	29.7	10.4	–	–	–	59.8
Currency and gold contracts									
Inflows	50,590.8	45,399.2	17,316.7	17,662.3	–	–	–	–	130,969.0
Outflows	(49,588.7)	(44,529.8)	(15,770.1)	(16,561.6)	–	–	–	–	(126,450.2)
Subtotal	1,002.1	869.4	1,546.6	1,100.7	–	–	–	–	4,518.8
Total derivatives	1,021.9	937.4	1,632.5	1,224.0	97.7	(14.4)	(2.8)	–	4,896.3
Total future undiscounted cash flows	9,793.7	12,659.1	(4,454.5)	(2,170.2)	(5,498.4)	7,559.2	1,897.3	–	19,786.2

The table below shows the contractual expiry date of the credit commitments as at the balance sheet date:

Contractual expiry date *SDR millions*	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Maturity undefined	Total
As at 31 March 2016	–	–	242.4	–	–	–	–	2,879.2	**3,121.6**
As at 31 March 2015	–	–	233.5	–	–	–	–	2,863.0	3,096.5

B. Liquidity ratio

The Bank has adopted a liquidity risk framework taking into account regulatory guidance issued by the BCBS related to the Liquidity Coverage Ratio (LCR). The framework is based on a liquidity ratio that compares the Bank's available liquidity to a liquidity requirement over a one-month time horizon assuming a stress scenario. In line with the Basel III liquidity framework, the underlying stress scenario combines an idiosyncratic and a market crisis. However, the liquidity ratio differs in construction from the LCR to reflect the nature and scope of the BIS banking activities – in particular, the short-term nature of the Bank's assets and liabilities. Within the Bank's liquidity framework, the Board of Directors has set a limit for the Bank's liquidity ratio which requires the liquidity available to be at least 100% of the potential liquidity requirement.

The table below provides information on the development of the Bank's liquidity ratio for the last two years:

For the financial year	**2016**				2015			
Percentages	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Liquidity ratio	140.0%	164.2%	112.6%	**140.2%**	161.8%	178.0%	144.7%	153.2%

The liquidity available is determined as the cash inflow from financial instruments over a one-month horizon, along with potential additional liquidity which could be generated from the disposal of highly liquid securities, or by entering into sale and repurchase agreements for a part of the Bank's remaining unencumbered high-quality liquid securities. In calculating the amount of potential additional liquidity an assessment is performed to identify securities which are of high credit quality and highly liquid. This is followed by a projection of the amounts that could reasonably be generated through selling these securities or entering into repurchase transactions.

The Bank determines the liquidity required as the sum of the cash outflow from financial instruments over a one-month horizon, the estimated early withdrawal of currency deposits and the estimated drawings of undrawn facilities. As regards currency deposits, it is assumed that all deposits that mature within the time horizon are not rolled over and that a proportion of non-maturing currency deposits is withdrawn from the Bank prior to contractual maturity. At 31 March 2016, the estimated outflow of currency deposits in response to the stress scenario amounted to 49.8% (2015: 41.3%) of the total stock of currency deposits. Moreover, it is assumed that undrawn facilities committed by the Bank would be fully drawn by customers, along with a proportion of undrawn uncommitted facilities.

The table below shows the Bank's estimated liquidity available, liquidity required and the resulting liquidity ratio:

As at 31 March

SDR billions	**2016**	2015
Liquidity available		
Estimated cash inflows	74.1	55.8
Estimated liquidity from sales of highly liquid securities	51.7	56.2
Estimated sale and repurchase agreements	3.0	5.4
Total liquidity available (A)	**128.8**	117.4
Liquidity required		
Estimated withdrawal of currency deposits	84.5	71.7
Estimated drawings of facilities	5.1	4.9
Estimated other outflows	2.3	–
Total liquidity required (B)	**91.9**	76.6
Liquidity ratio (A) / (B)	**140.2%**	153.2%

For reference, the Bank also calculates an LCR following the principles set out in the guidance issued by the BCBS. At 31 March 2016 the Bank's LCR stood at 208.5% (2015: 262.7%).

Independent auditor's report

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

We have audited the accompanying financial statements of the Bank for International Settlements (pages 177–245), which comprise the balance sheet as at 31 March 2016, the related profit and loss account, statement of comprehensive income, the statement of cash flows and movements in the Bank's equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting principles described in the financial statements and the Statutes of the Bank. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical responsibilities and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 March 2016 give a true and fair view of the financial position of the Bank for International Settlements and of its financial performance and its cash flows for the year then ended in accordance with the accounting principles described in the financial statements and the Statutes of the Bank.

Ernst & Young

Victor Veger   John Alton

Zurich, 9 May 2016

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