Statistical Annex

The international banking market

Securities markets

Derivatives markets

The BIS international financial statistics summary tables

The BIS publishes a variety of international financial statistics, most of them on a quarterly basis. They cover banking statistics on both a locational and a consolidated basis, debt securities issues in both domestic and international markets, and statistics on derivatives traded on exchanges and over the counter. The main purpose of the statistics is to provide a measure of the size and structure of key segments of the global financial market and to monitor their development. A summary of the most recent data is presented in seven tables (see below).[1]

1. International banking statistics (Tables 1A, 1B, 2A and 2B)

The locational reporting system provides quarterly data on the international financial claims and liabilities of banks resident in the 43 reporting countries on a gross basis. The methodology is consistent with the principles underlying the compilation of national accounts, balances of payments and external debt statistics. Breakdowns are provided in terms of instrument, currency, sector and vis-à-vis country. The currency breakdown allows the BIS to approximate global bank credit flows adjusted for exchange rate fluctuations.

The consolidated banking statistics cover banks' worldwide on-balance sheet claims, on both a contractual (immediate borrower) and an ultimate risk basis (ie net of risk mitigants such as guarantees and collateral). Positions are reported by head offices in their home country and include all branches and subsidiaries on a worldwide consolidated basis, net of inter-office accounts. Breakdowns are available in terms of instrument, sector, maturity and vis-à-vis country. Information is also available on key off-balance sheet items such as guarantees extended, credit commitments and derivative contracts. Currently 30 countries provide consolidated banking data.

While the locational statistics are appropriate for measuring lending flows in a given period, the consolidated statistics are more suited to gauging the size of banks' country and liquidity risk exposures. The data are compiled by the BIS on the basis of national data reported by the respective central banks, which in turn collect these data from the internationally active banks in their jurisdiction.

2. Debt securities statistics (Tables 3A and 3B)

These statistics are derived from various national, market and institutional data sources and provide information on amounts outstanding and flows of debt securities issuance in both international and domestic markets. Nominal values are used and the data are broken down using similar criteria as for the banking statistics, ie sector, currency and maturity. However, only the liabilities of the issuers are covered.

International debt securities comprise domestic and foreign currency issues by residents of a given country outside their respective domestic market, foreign currency issues by residents in their domestic market and foreign and domestic currency debt securities issued in the domestic market by non-residents. Breakdowns are available in terms of currency, sector and maturity.

Domestic debt securities comprise issues in domestic markets in national currency for 55 countries. Breakdowns are provided in terms of sector and maturity. As far as possible, the BIS endeavours to eliminate any overlap between its international and domestic debt securities statistics.

3. Derivatives statistics (Table 4)

Semi annual data are compiled for activity in over-the-counter (OTC) markets whilst quarterly data are available on activity in exchange-traded markets. The data on OTC derivatives are based on the reporting to the BIS by central banks in major financial centres that in turn collect the information on a consolidated basis from reporting dealers headquartered in their respective country, while those on exchange-traded derivatives are obtained from market sources.

The derivatives data cover notional amounts outstanding and gross market values for a number of risk categories: foreign exchange, interest rates, equity-linked, commodities and credit default swaps. Gross credit exposure in OTC markets after bilateral netting is also available.

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[1] More detailed tables and options to download the data in time series form are available at http://www.bis.org/statistics/index.htm.

Table 1A: International positions of banks by residence of counterparty, March 2011[1]

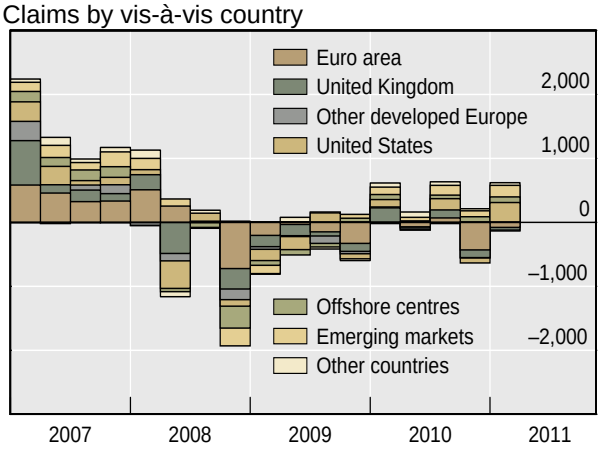
In billions of US dollars

	Vis-à-vis developed countries	Vis-à-vis offshore centres	Vis-à-vis emerging markets					All countries
			Total	Africa	Asia	Europe	Latin America	
Amounts outstanding								
Total claims	**26,581**	**4,493**	**3,616**	**516**	**1,540**	**910**	**651**	**35,311**
Total cross-border claims	**23,708**	**3,995**	**3,061**	**509**	**1,200**	**799**	**554**	**31,385**
Loans	16,955	3,311	2,395	462	941	607	385	22,979
Securities	5,100	555	383	22	147	91	123	6,132
Claims on banks	15,153	2,534	1,645	211	786	433	214	19,861
Claims on non-banks	8,555	1,461	1,416	298	413	366	339	11,524
US dollar	9,081	2,609	1,225	292	370	200	362	12,996
Euro	10,254	327	513	95	53	341	24	11,206
Foreign currency claims on residents	**2,873**	**498**	**555**	**7**	**340**	**110**	**97**	**3,926**
Estimated exchange rate adjusted changes during the quarter[2]								
Total claims	**145**	**116**	**243**	**2**	**166**	**34**	**41**	**538**
Total cross-border claims	**189**	**90**	**178**	**1**	**126**	**28**	**23**	**491**
Loans	220	90	142	0	115	11	17	446
Securities	-3	1	20	0	9	6	5	30
Claims on banks	21	55	147	1	105	24	17	254
Claims on non-banks	169	35	31	1	20	4	7	237
US dollar	413	38	56	2	33	1	19	521
Euro	-68	4	8	1	2	4	1	-52
Foreign currency claims on residents	**-44**	**26**	**65**	**0**	**40**	**6**	**18**	**47**
Amounts outstanding								
Total liabilities	**22,634**	**5,375**	**2,886**	**801**	**1,121**	**435**	**529**	**34,232**
Total cross-border liabilities	**19,564**	**4,561**	**2,268**	**792**	**722**	**325**	**431**	**29,730**
Deposits	17,187	4,418	2,184	778	688	321	396	24,271
Securities	1,456	90	26	8	13	0	5	4,286
Liabilities to banks	14,470	3,202	1,376	492	460	230	194	21,786
Liabilities to non-banks	5,094	1,359	892	299	262	94	237	7,944
US dollar	8,031	3,001	1,219	503	263	129	324	13,283
Euro	7,930	513	358	150	50	112	46	9,618
Foreign currency liabilities to residents	**3,070**	**815**	**617**	**9**	**400**	**110**	**98**	**4,502**
Estimated exchange rate adjusted changes during the quarter[2]								
Total liabilities	**405**	**61**	**116**	**39**	**37**	**18**	**21**	**718**
Total cross-border liabilities	**346**	**29**	**60**	**40**	**-3**	**15**	**8**	**572**
Deposits	339	22	62	41	-5	15	10	459
Securities	61	1	0	-1	0	0	0	160
Liabilities to banks	274	-20	44	22	-4	24	2	413
Liabilities to non-banks	72	49	16	18	0	-9	6	158
US dollar	390	87	59	44	-3	11	6	582
Euro	32	-30	-22	-1	-13	-6	-2	33
Foreign currency liabilities to residents	**59**	**32**	**55**	**-1**	**41**	**3**	**13**	**147**

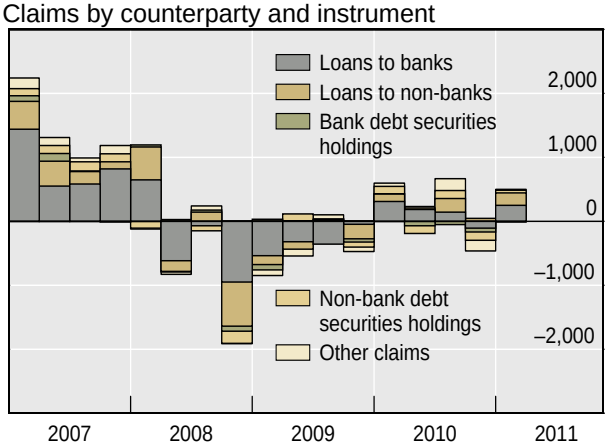
Cross-border positions

Exchange rate adjusted changes in stocks

Claims by vis-à-vis country



Claims by counterparty and instrument



[1] Detailed breakdowns and time series data are available at http://www.bis.org/statistics/bankstats.htm (Tables1–7B). [2] Taking into account exchange rate effects on outstanding balances in non-dollar currencies.

Table 1B: International positions of banks by nationality of head office, March 2011[1]

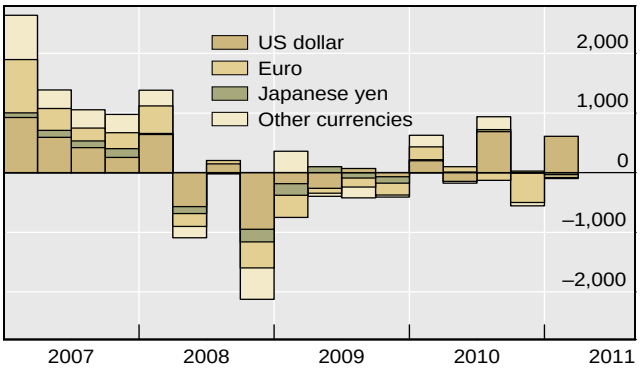
In billions of US dollars

	Nationality of banks										All countries
	France	Germany	Italy	Nether-lands	Spain	Switzer-land	United Kingdom	Japan	United States	Emerging markets	
Amounts outstanding											
Total claims	**4,438**	**4,241**	**995**	**1,519**	**840**	**2,428**	**4,808**	**3,821**	**4,310**	**1,267**	**35,247**
on banks	3,040	2,385	596	950	498	1,496	2,855	1,572	3,031	665	21,052
on related foreign offices	1,268	1,316	328	448	327	641	1,467	744	1,944	199	10,805
on other banks	1,748	1,057	266	495	169	847	1,340	828	1,084	441	10,105
on official monetary institutions	24	12	2	7	2	7	47	0	2	25	142
on non-banks	1,398	1,856	399	570	342	932	1,953	2,249	1,279	602	14,195
US dollar	1,378	1,313	175	420	285	1,231	2,008	1,998	3,061	869	14,561
Euro	2,264	2,310	730	780	371	587	1,660	505	571	125	11,858
Other currencies	796	619	90	319	185	610	1,140	1,319	678	273	8,827
Estimated exchange rate adjusted changes during the quarter[2]											
Total claims	**-30**	**-122**	**7**	**32**	**16**	**-125**	**136**	**131**	**154**	**73**	**507**
on banks	26	-57	14	34	23	-85	183	129	155	37	691
on related foreign offices	-38	-42	69	12	9	-139	117	59	96	20	194
on other banks	58	-14	-54	17	14	51	60	71	60	18	488
on official monetary institutions	5	-1	-1	5	0	3	5	-1	-1	-1	9
on non-banks	-56	-65	-7	-2	-8	-40	-47	2	-1	36	-184
US dollar	24	-10	6	23	6	11	77	126	162	68	608
Euro	7	-81	5	0	3	-6	33	0	-29	4	-45
Other currencies	-62	-31	-5	9	7	-129	26	5	21	1	-55
Amounts outstanding											
Total liabilities	**4,178**	**3,395**	**1,029**	**1,595**	**1,072**	**2,589**	**4,844**	**2,147**	**4,909**	**1,366**	**34,181**
to banks	2,823	1,977	729	1,150	542	1,405	2,511	1,276	2,670	759	19,742
to related foreign offices	1,187	1,288	229	371	279	750	1,380	607	1,808	161	9,762
to other banks	1,516	602	465	739	235	637	1,010	628	723	581	9,172
to official monetary institutions	120	87	35	40	28	17	121	42	139	17	808
to non-banks	1,355	1,418	301	445	529	1,184	2,333	872	2,239	607	14,439
US dollar	1,412	1,356	188	545	334	1,250	1,745	1,270	3,773	889	15,387
Euro	1,936	1,345	726	636	548	663	1,564	258	507	132	10,449
Other currencies	831	694	115	414	189	677	1,535	620	628	345	8,346
Estimated exchange rate adjusted changes during the quarter[2]											
Total liabilities	**-89**	**-91**	**34**	**12**	**37**	**-178**	**255**	**107**	**157**	**51**	**697**
to banks	-68	-46	33	14	-3	-199	184	50	67	-1	198
to related foreign offices	-65	-51	7	-16	6	-169	197	22	116	13	93
to other banks	-5	-2	27	25	-4	-31	-9	20	-51	-6	75
to official monetary institutions	2	7	-2	5	-6	1	-4	8	1	-7	30
to non-banks	-21	-45	1	-2	41	21	71	57	90	51	498
US dollar	-4	-18	11	48	9	-17	124	111	161	60	708
Euro	-40	-49	20	-19	29	-37	86	-1	-26	2	51
Other currencies	-46	-24	3	-17	0	-124	46	-3	23	-11	-62

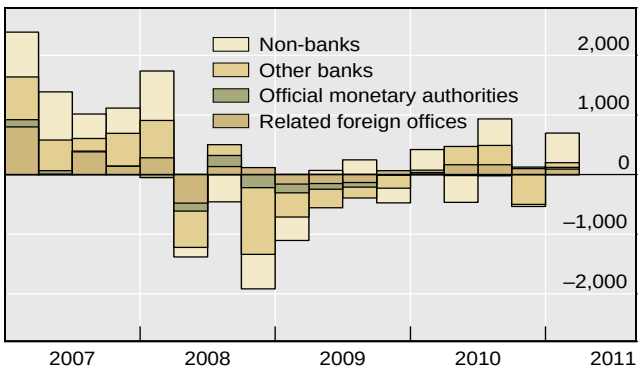
International positions of BIS reporting banks

Exchange rate adjusted changes in stocks

Claims by currency



Liabilities by sector of counterparty



[1] Detailed breakdowns and time series data are available at http://www.bis.org/statistics/bankstats.htm (Tables 8A–8B). [2] Taking into account exchange rate effects on outstanding balances in non-dollar currencies.

Table 2A: Consolidated claims, immediate borrower basis, March 2011[1]

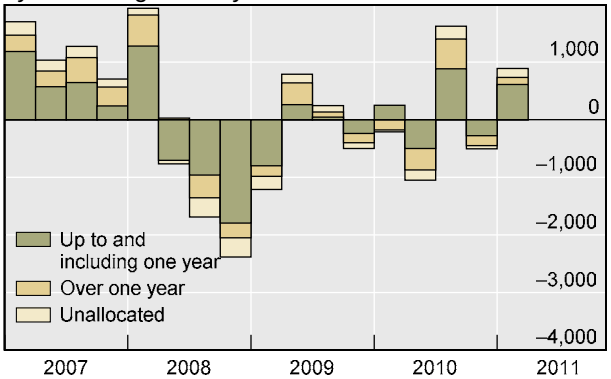
Amounts outstanding, in billions of US dollars

	Vis-à-vis developed countries				Vis-à-vis offshore centres	Vis-à-vis emerging markets					All countries
	Total	United States	Euro area	Japan		Total	Africa	Asia	Europe	Latin America	
Foreign claims	**23,873**	**5,852**	**10,055**	**1,096**	**2,549**	**5,392**	**668**	**1,967**	**1,493**	**1,264**	**31,937**
International claims	**15,428**	**2,622**	**7,539**	**691**	**2,027**	**3,061**	**436**	**1,287**	**833**	**504**	**20,638**
Up to and including one year	8,004	914	3,650	568	1,010	1,612	213	850	319	230	10,656
Over one year	4,967	1,028	2,714	64	602	1,156	202	298	442	214	6,768
Unallocated by maturity	2,458	680	1,176	60	414	292	21	139	72	60	3,214
Local currency claims	**8,445**	**3,230**	**2,515**	**404**	**522**	**2,332**	**232**	**680**	**660**	**760**	**11,300**
Local currency liabilities	**6,245**	**2,516**	**1,865**	**263**	**457**	**1,668**	**208**	**453**	**406**	**600**	**8,372**
	Unadjusted changes during the quarter[2]										
Foreign claims	*1,115*	*376*	*417*	*-32*	*142*	*371*	*15*	*187*	*107*	*61*	*1,641*
International claims	*533*	*73*	*240*	*2*	*119*	*224*	*16*	*138*	*54*	*16*	*890*
Local currency claims	*582*	*303*	*177*	*-34*	*23*	*147*	*-1*	*50*	*53*	*45*	*751*
Local currency liabilities	*345*	*50*	*196*	*10*	*11*	*91*	*5*	*19*	*30*	*38*	*447*
Nationality of reporting banks:	**Foreign claims**										
Domestically owned banks (total)	**19,952**	**5,498**	**8,055**	**771**	**2,473**	**4,980**	**622**	**1,714**	**1,447**	**1,197**	**27,523**
Euro area	9,264	1,734	4,837	230	486	2,370	241	353	1,176	600	12,175
Switzerland	1,431	716	336	83	204	171	29	85	20	38	1,813
United Kingdom	2,649	1,140	1,072	120	606	894	233	450	62	150	4,171
Japan	1,988	1,032	522	0	522	313	31	200	22	60	2,822
United States	1,930	0	712	308	396	739	59	348	79	253	3,083
Other countries[3]	2,691	874	577	31	258	493	30	280	87	97	3,460
Other foreign banks	**3,921**	**354**	**2,000**	**324**	**76**	**412**	**46**	**253**	**46**	**67**	**4,414**
	International claims, all maturities										
Domestically owned banks (total)	**11,508**	**2,268**	**5,540**	**367**	**1,951**	**2,649**	**390**	**1,034**	**787**	**437**	**16,224**
Euro area	5,409	682	3,070	110	429	1,183	169	260	590	163	7,075
Switzerland	707	150	320	41	191	141	25	71	18	26	1,045
United Kingdom	1,261	376	651	71	303	378	94	197	43	44	1,963
Japan	1,673	795	499	0	485	247	31	136	22	58	2,405
United States	1,301	0	639	126	345	389	42	200	47	100	2,052
Other countries[3]	1,156	265	361	19	199	311	29	169	67	46	1,684
Other foreign banks	**3,921**	**354**	**2,000**	**324**	**76**	**412**	**46**	**253**	**46**	**67**	**4,414**
	International claims, short-term										
Domestically owned banks (total)	**5,306**	**742**	**2,343**	**257**	**963**	**1,338**	**183**	**653**	**298**	**204**	**7,635**
Euro area	2,365	293	1,089	58	200	462	67	132	197	66	3,031
Switzerland	419	81	182	24	124	82	19	42	9	12	627
United Kingdom	565	146	303	36	166	217	42	128	27	20	949
Japan	212	84	60	0	52	87	7	65	6	9	351
United States	1,055	0	494	123	310	339	35	186	38	80	1,719
Other countries[3]	690	137	216	15	111	151	12	99	22	18	958
Other foreign banks	**2,697**	**172**	**1,307**	**311**	**48**	**274**	**30**	**197**	**21**	**26**	**3,021**

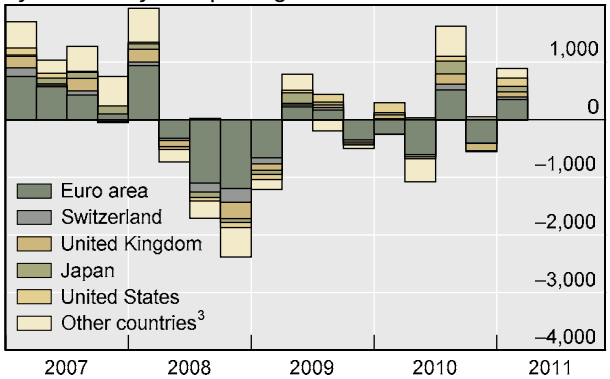
International claims of BIS reporting banks on an immediate borrower basis[4]

Changes in stocks[2]

By remaining maturity



By nationality of reporting banks



[1] Detailed breakdowns and time series data are available at http://www.bis.org/statistics/consstats.htm (Tables 9A–9B and BIS WebStats). [2] Quarterly difference in outstanding stocks, excluding effects of breaks in series. [3] Domestically owned banks in other reporting countries. [4] Worldwide consolidated positions of domestically owned banks and unconsolidated positions of foreign banks in 30 reporting countries.

Table 2B: Consolidated claims, ultimate risk basis, March 2011[1]

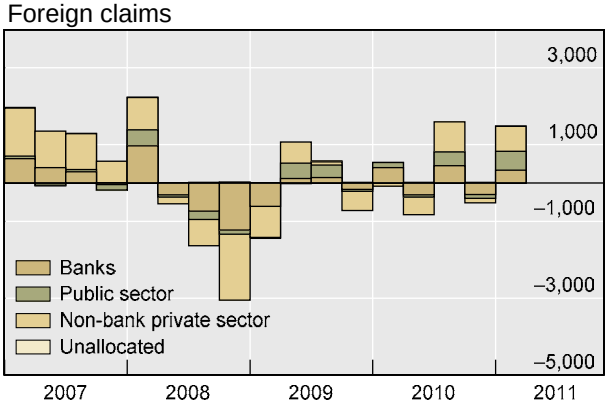
Amounts outstanding, in billions of US dollars

	Vis-à-vis developed countries				Vis-à-vis offshore centres	Vis-à-vis emerging markets					All countries
	Total	United States	Euro area	Japan		Total	Africa	Asia	Europe	Latin America	
Foreign claims	**19,845**	**5,583**	**7,979**	**795**	**1,899**	**4,817**	**592**	**1,666**	**1,381**	**1,177**	**26,692**
Banks	5,042	883	2,314	249	179	933	96	487	203	148	6,163
Public sector	3,817	1,367	1,589	297	177	1,181	121	341	308	411	5,272
Non-bank private sector	10,788	3,223	4,052	245	1,512	2,682	375	837	854	617	15,004
Unallocated	199	109	24	3	32	20	1	1	17	2	254
Cross-border claims	**10,813**	**2,440**	**5,489**	**317**	**1,210**	**2,102**	**345**	**856**	**534**	**366**	**14,251**
Local claims in all currencies	**9,033**	**3,143**	**2,491**	**478**	**689**	**2,715**	**247**	**810**	**847**	**811**	**12,442**
	Unadjusted changes during the quarter[2]										
Foreign claims	*1,055*	*348*	*427*	*-58*	*123*	*300*	*0*	*145*	*100*	*54*	*1,486*
Cross-border claims	*473*	*63*	*268*	*-27*	*81*	*132*	*3*	*82*	*47*	*1*	*696*
Local claims in all currencies	*582*	*286*	*159*	*-32*	*42*	*167*	*-2*	*63*	*54*	*53*	*790*
Nationality of reporting banks[3]	**Foreign claims**										
Total	**19,845**	**5,583**	**7,979**	**795**	**1,899**	**4,817**	**592**	**1,666**	**1,381**	**1,177**	**26,692**
Euro area	9,064	1,751	4,719	232	395	2,290	232	338	1,121	600	11,806
France	2,656	597	1,439	147	120	483	129	138	174	42	3,266
Germany	2,548	502	1,229	55	166	342	57	105	139	41	3,087
Italy	693	45	567	…	16	229	12	19	190	6	943
Spain	953	228	264	1	21	516	5	11	38	463	1,491
Switzerland	1,490	748	371	79	152	155	20	77	21	38	1,805
United Kingdom	2,626	1,125	1,058	126	544	905	228	464	62	152	4,098
Japan	1,994	1,133	464	0	320	299	29	186	22	62	2,612
United States	2,305	0	856	333	307	728	58	342	77	250	3,366
Other countries	2,367	827	511	25	182	438	25	259	79	76	3,005
	Cross-border claims										
Total	**10,813**	**2,440**	**5,489**	**317**	**1,210**	**2,102**	**345**	**856**	**534**	**366**	**14,251**
Euro area	5,024	773	2,978	95	303	922	172	230	386	134	6,306
France	1,518	243	833	65	86	284	86	97	69	33	1,896
Germany	1,843	340	1,058	21	142	255	54	68	97	37	2,272
Italy	306	29	212	…	14	52	6	12	27	6	377
Spain	191	22	114	1	12	58	5	10	10	34	263
Switzerland	689	166	354	37	122	133	17	63	19	34	950
United Kingdom	1,212	365	630	57	181	300	67	159	37	37	1,715
Japan	1,689	909	440	0	275	210	29	100	21	60	2,174
United States	1,422	0	785	115	237	335	40	175	41	79	2,021
Other countries	777	226	301	13	91	203	22	129	30	22	1,084
	Other potential exposures[4, 5]										
Derivatives contracts	3,069	775	1,157	110	126	165	30	66	23	47	3,380
Guarantees extended	6,016	639	2,308	209	261	992	129	290	336	237	7,408
Credit commitments	2,902	858	1,035	62	237	594	74	177	147	195	3,734

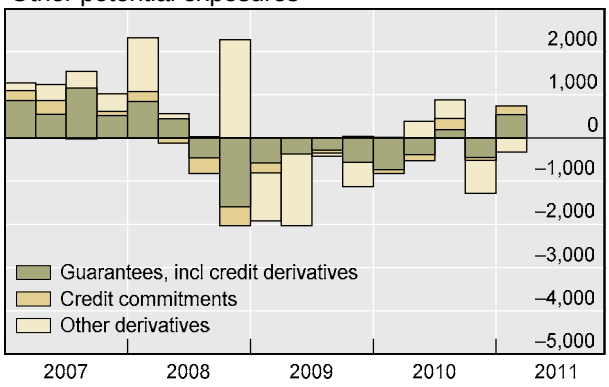
Consolidated claims and other potential exposures of BIS reporting banks on an ultimate risk basis

Changes in stocks[2]

Foreign claims



Other potential exposures[4, 5]



[1] Detailed breakdowns and time series data are available at http://www.bis.org/statistics/consstats/htm (Tables 9C–9E). [2] Quarterly difference in outstanding stocks, excluding effects of breaks in series. [3] Worldwide consolidated positions of domestically owned banks of 24 reporting countries. [4] Not included in foreign claims. [5] Derivatives relate to positive market values recorded as on- or off-balance sheet items. Credit commitments and guarantees are recorded as off-balance sheet items.

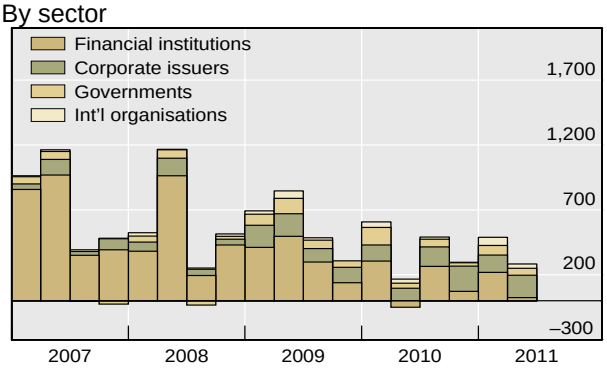
Table 3A: International debt securities issuance, June 2011[1]

In billions of US dollars

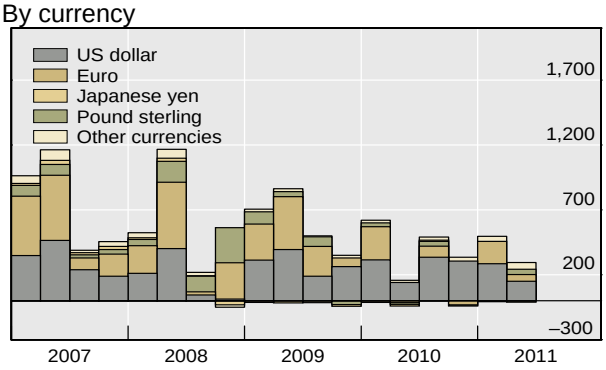
	Developed countries				Off-shore centres	Emerging markets					Int'l organi-sations	All countries
	Total	United States	Euro area	Japan		Total	Africa	Asia	Europe	Latin America		
Amounts outstanding												
Total issues	**25,761**	**6,753**	**12,678**	**179**	**1,593**	**1,258**	**162**	**338**	**311**	**446**	**1,023**	**29,634**
Money market instruments	**894**	**79**	**508**	**1**	**41**	**7**	**0**	**5**	**0**	**2**	**16**	**959**
Financial institutions	825	78	458	1	40	7	0	5	0	2	0	872
Corporate issuers	42	1	34	0	1	0	0	0	0	0	0	43
Governments	27	0	16	0	0	0	0	0	0	0	0	27
US dollar	305	69	131	0	16	5	0	3	0	2	9	335
Euro	375	4	260	0	6	0	0	0	0	0	2	383
Other currencies	215	5	117	1	19	2	0	2	0	0	5	241
Bonds and notes	**24,867**	**6,674**	**12,171**	**178**	**1,552**	**1,251**	**161**	**333**	**311**	**445**	**1,007**	**28,675**
Financial institutions	19,333	4,804	9,527	133	1,443	325	45	156	39	85	0	21,101
Corporate issuers	3,517	1,858	956	42	68	323	52	105	42	125	0	3,908
Governments	2,017	12	1,688	2	41	602	64	73	230	235	0	2,659
US dollar	8,633	5,767	1,226	52	1,102	885	113	265	149	358	323	10,943
Euro	12,286	567	9,980	13	195	208	21	11	130	45	327	13,015
Other currencies	3,947	340	965	113	254	158	27	57	32	41	357	4,716
Floating rate	7,547	1,128	4,166	22	566	90	27	37	10	16	71	8,274
Straight fixed rate	16,940	5,408	7,886	122	924	1,099	125	252	299	423	936	19,898
Equity-related	380	139	119	34	62	61	9	44	3	6	0	503
Net issuance during the quarter												
Total issues	**191**	**8**	**92**	**-9**	**23**	**35**	**-1**	**9**	**12**	**16**	**34**	**283**
Money market instruments	**-37**	**-21**	**-15**	**0**	**8**	**0**	**0**	**0**	**0**	**0**	**-3**	**-32**
Financial institutions	-42	-20	-19	0	6	0	0	0	0	0	0	-36
Corporate issuers	14	-1	13	0	1	0	0	0	0	0	0	15
Governments	-8	0	-9	0	0	0	0	0	0	0	0	-8
US dollar	-26	-21	-8	0	3	0	0	0	0	0	-4	-27
Euro	-26	0	-17	0	0	0	0	0	0	0	0	-26
Other currencies	16	0	10	0	4	0	0	0	0	0	1	20
Bonds and notes	**228**	**29**	**106**	**-9**	**16**	**35**	**-1**	**8**	**12**	**16**	**37**	**316**
Financial institutions	39	-84	70	-3	11	11	0	2	2	8	0	61
Corporate issuers	138	113	9	-6	5	14	-1	5	1	9	0	157
Governments	51	0	28	0	0	10	0	2	8	-1	0	61
US dollar	129	56	29	-1	19	31	2	7	7	15	-1	178
Euro	55	-20	79	0	-7	1	-1	0	2	-1	28	76
Other currencies	45	-8	-2	-7	4	3	-2	1	2	2	10	62
Floating rate	7	-24	28	-1	-6	0	-3	0	0	2	4	5
Straight fixed rate	222	50	78	-2	23	35	2	8	11	14	33	312
Equity-related	-1	4	1	-6	-1	1	0	0	0	0	0	-1
Memo: Announced international equity issuance	*136*	*63*	*32*	*1*	*4*	*41*	*2*	*17*	*9*	*12*	*0*	*180*

Net international debt securities issuance

By sector



By currency



[1] Detailed breakdowns and time series data, including for gross international debt securities issuance, are available at http://www.bis.org/statistics/secstats.htm (Tables 11, 12A–D, 13A–B, 14A–B, 15A–B and 17B).

Table 3B: Domestic debt securities issuance, March 2011[1]

In billions of US dollars

Amounts outstanding

	All countries	United States	Euro area	France	Germany	Italy	Spain	Other developed	Canada	Japan	United Kingdom
Total issues	**68,717**	**25,475**	**14,083**	**3,421**	**2,815**	**3,236**	**1,576**	**19,593**	**1,535**	**13,575**	**1,727**
Governments	40,015	11,403	7,712	1,834	1,818	2,094	707	14,936	1,069	11,580	1,395
Of which: short-term[2]	9,967	2,645	1,804	386	516	448	175	3,759	206	3,205	192
Financial institutions	21,823	11,135	5,010	1,301	594	762	845	3,448	288	1,128	312
Of which: short-term[2]	6,306	2,686	1,250	514	459	23	73	1,431	93	401	312
Corporate issuers	6,879	2,937	1,361	287	403	381	24	1,209	178	868	21
Of which: short-term[2]	806	159	193	75	70	1	0	139	12	105	0

	Emerging markets	Brazil	China	Chinese Taipei	Czech Republic	India	Malaysia	Mexico	South Africa	South Korea	Turkey
Total issues	**9,566**	**1,528**	**3,048**	**259**	**88**	**711**	**278**	**451**	**186**	**1,175**	**233**
Governments	5,964	983	1,501	156	60	610	131	261	123	513	229
Of which: short-term[2]	1,760	394	591	20	13	27	1	88	27	137	7
Financial institutions	2,231	534	975	36	18	76	60	152	35	258	0
Of which: short-term[2]	940	534	109	8	0	76	26	30	5	126	0
Corporate issuers	1,371	10	572	67	10	25	87	38	28	405	3
Of which: short-term[2]	314	10	137	25	0	25	4	1	0	104	0

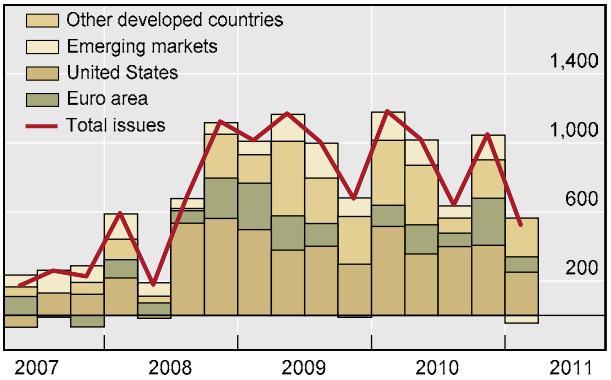
Changes in stocks during the quarter

	All countries	United States	Euro area	France	Germany	Italy	Spain	Other developed	Canada	Japan	United Kingdom
Total issues	**654**	**264**	**186**	**88**	**32**	**47**	**7**	**89**	**24**	**120**	**14**
Governments	521	252	89	65	-15	37	36	224	13	185	13
Of which: short-term[3]	-210	-74	5	-3	-4	14	-2	-10	-15	0	13
Financial institutions	20	-44	92	42	20	16	-29	-126	6	-50	1
Of which: short-term[3]	67	54	24	8	9	0	-1	-28	3	-31	1
Corporate issuers	113	57	5	-18	28	-6	0	-9	5	-15	-1
Of which: short-term[3]	19	39	-8	-14	3	0	0	-19	-1	-19	0

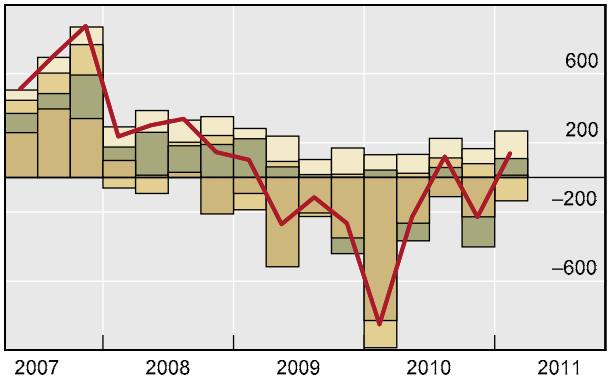
	Emerging markets	Brazil	China	Chinese Taipei	Czech Republic	India	Malaysia	Mexico	South Africa	South Korea	Turkey
Total issues	**114**	**25**	**-14**	**3**	**3**	**…**	**…**	**8**	**1**	**25**	**1**
Governments	-44	5	-138	0	3	…	…	6	1	21	0
Of which: short-term[3]	-132	-8	-139	0	1	…	…	-2	1	0	-1
Financial institutions	99	21	79	0	0	…	…	1	0	-6	0
Of which: short-term[3]	16	21	0	0	0	…	…	-3	0	-5	0
Corporate issuers	60	-1	45	3	0	…	…	1	0	11	1
Of which: short-term[3]	6	-1	5	2	0	…	…	0	0	0	0

Changes in stocks of domestic debt securities

Governments



Other sectors[4]



Euro area: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, Spain; Other developed countries: Australia, Canada, Denmark, Iceland, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom; Emerging markets: Albania, Argentina, Armenia, Bangladesh, Bolivia, Brazil, Bulgaria, Chile, China, Chinese Taipei, Colombia, Costa Rica, Croatia, the Czech Republic, Egypt, Georgia, Guatemala, Hong Kong SAR, Honduras, Hungary, India, Indonesia, Kenya, Lebanon, Lithuania, Malaysia, Mauritius, Mexico, Moldova, Morocco, Nepal, Pakistan, Peru, the Philippines, Poland, Romaina, Russia, Seychelles, Singapore, South Africa, South Korea, Sri lanka, Tanzania, Thailand, Tonga, Turkey, Venezuela.

[1] Detailed breakdowns and time series data are available at http://www.bis.org/statistics/secstats.htm (Tables 16A–16B and 17A). [2] Issues with a remaining maturity to final repayment of up to one year. [3] Money market instruments. [4] Financial institutions plus corporate issuers.

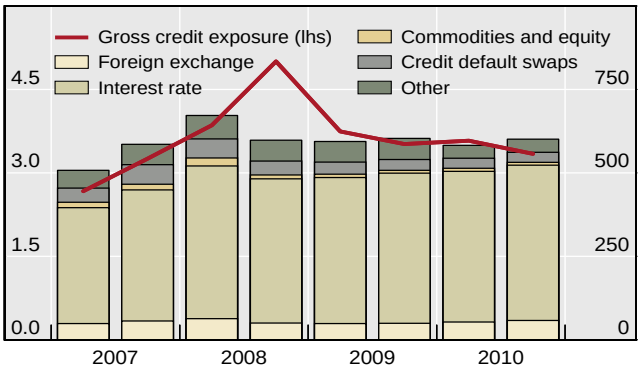
Table 4: Global OTC derivatives market, end-December 2010[1]

In billions of US dollars

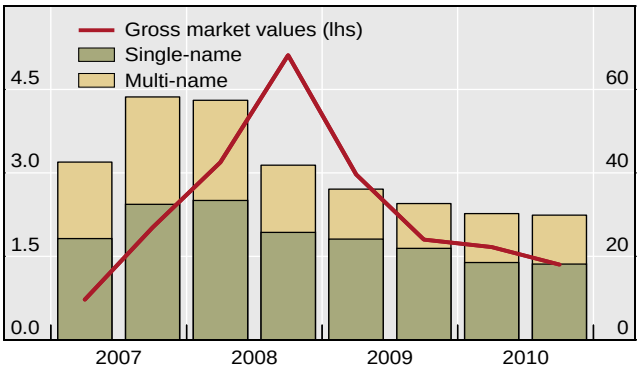
	Forwards and swaps				Options			
	Total	with reporting dealers	with other financial institutions	with non-financial customers	Total	with reporting dealers	with other financial institutions	with non-financial customers
	Notional amounts outstanding							
All contracts[2]	**532,430**	**152,690**	**332,238**	**45,350**	**68,619**	**33,088**	**27,926**	**6,630**
Foreign exchange	**47,705**	**17,582**	**21,811**	**8,313**	**10,092**	**4,374**	**3,815**	**1,904**
US dollar	40,673	16,046	18,520	6,106	8,066	3,356	3,230	1,480
Euro	18,409	6,305	8,125	3,978	3,521	1,464	1,228	828
Japanese yen	9,157	4,195	3,655	1,306	3,419	1,804	1,132	483
Pound sterling	5,858	1,846	2,658	1,353	729	278	244	206
Other	21,314	6,770	10,663	3,881	4,450	1,844	1,797	809
Up to one year	31,618	11,782	13,681	6,155	6,369	2,876	2,067	1,425
Over one year	16,087	5,800	8,129	2,158	3,724	1,497	1,748	478
Memo: Exchange-traded[3]	*170*	.	.	.	*144*	.	.	.
Interest rate	**415,965**	**109,442**	**273,089**	**33,433**	**49,295**	**25,041**	**20,388**	**3,866**
US dollar	136,886	36,573	89,828	10,484	14,697	6,866	6,489	1,343
Euro	154,024	34,108	108,758	11,158	23,807	12,772	9,534	1,501
Japanese yen	54,357	20,009	28,750	5,598	5,152	3,424	1,598	130
Pound sterling	34,269	6,601	24,279	3,389	3,544	1,352	1,922	270
Other	36,429	12,151	21,474	2,804	2,096	627	846	622
Up to one year	179,455	55,123	112,921	11,411	11,032	5,484	4,262	1,286
Over one year	236,510	54,319	160,168	22,022	38,263	19,557	16,126	2,580
Memo: Exchange-traded[3]	*21,013*	.	.	.	*40,930*	.	.	.
Equity	**1,828**	**524**	**995**	**310**	**3,807**	**1,497**	**1,886**	**424**
Memo: Exchange-traded[3]	*1,128*	.	.	.	*4,560*	.	.	.
Commodities	**2,011**	**…**	**…**	**…**	**910**	**…**	**…**	**…**
Credit default swaps	**29,898**	**15,099**	**14,489**	**310**	**…**	**…**	**…**	**…**
Unallocated	**35,023**	**10,044**	**21,854**	**2,983**	**4,514**	**2,176**	**1,837**	**436**
	Gross market values							
All contracts	**18,161**	**5,145**	**11,623**	**1,394**	**2,419**	**1,273**	**899**	**248**
Foreign exchange	**2,120**	**716**	**951**	**453**	**362**	**183**	**98**	**81**
US dollar	1,664	613	751	300	280	144	66	70
Euro	785	225	348	211	103	46	32	24
Japanese yen	494	207	192	96	193	113	42	39
Pound sterling	241	60	101	81	13	5	4	4
Other	1,056	327	511	218	135	57	52	25
Interest rate	**13,207**	**3,325**	**9,106**	**776**	**1,401**	**789**	**541**	**72**
US dollar	5,662	1,397	4,027	238	515	285	201	28
Euro	5,137	1,206	3,570	362	689	393	267	30
Japanese yen	932	345	540	46	91	62	26	2
Pound sterling	796	169	541	85	82	38	36	8
Other	680	208	427	45	25	10	11	3
Equity	**167**	**28**	**96**	**43**	**480**	**209**	**195**	**77**
Credit default swaps	**1,351**	**703**	**628**	**20**	**…**	**…**	**…**	**…**
Unallocated	**1,316**	**373**	**842**	**101**	**175**	**92**	**65**	**18**

Global OTC derivatives[4]

Notional amounts outstanding by risk category



Credit default swaps



[1] Detailed breakdowns and time series data are available at http://www.bis.org/statistics/derstats.htm (Tables 19, 20A–C, 21A–C, 22A–C and 23A–B). [2] Due to incomplete counterparty breakdowns for the commodity derivatives, components do not add up to the total. [3] Futures and options. Data on exchange-traded and OTC derivatives are not directly comparable; the former refers to open interest while the latter refers to gross positions. [4] In trillions of US dollars.

Notes to tables

Data for the most recent period are provisional. Data on changes in stocks have been calculated by converting the relevant stocks into their original currencies using end-of-period exchange rates and subsequently converting the changes in stocks into US dollar amounts using period average rates. Flow and turnover data have been calculated by converting flows and turnover in original currencies into US dollar amounts using period average exchange rates.

Tables 1A–1B

The data in Tables 1A–1B (the locational BIS banking statistics) cover banks' unconsolidated gross international on-balance sheet assets and liabilities. These data are based on the residence of the reporting institution and therefore measure the activities of all banking offices residing in each reporting country. Such offices report exclusively on their own unconsolidated business, which thus includes international transactions with any of their own affiliates. BIS reporting banks include banks residing in the G10 countries, plus Australia, Austria, the Bahamas, Bahrain, Bermuda, Brazil, the Cayman Islands, Chile, Chinese Taipei, Curacao, Cyprus, Denmark, Finland, Greece, Guernsey, Hong Kong SAR, India, Ireland, Isle of Man, Jersey, Korea, Luxembourg, Macao SAR, Malaysia, Mexico, the Netherlands Antilles (till Q3 2010), Norway, Panama, Portugal, Singapore, South Africa, Spain and Turkey. Breakdowns by currency are compiled from actual reported data and do not include any estimates done by the BIS for reporting countries that provide incomplete or partial currency information. Data of Bahamas for the latest quarter relate to 2010 Q4. Table 1A provides aggregated figures by residence of banks in all reporting countries. Table 1B provides figures by nationality of banks in reporting countries. The nationality statistics are prepared by regrouping the locational data into categories based on the control or ownership of the banking offices in question. Thus, for a reporting country, total assets and total liabilities of all banks reported under locational by residence statistics should be equal to the total assets and total liabilities of all banks reported under nationality statistics. Detailed tables, including time series data in CSV files, guidelines and information on breaks in series in the locational banking statistics, are available on the BIS website under http://www.bis.org/statistics/bankstats.htm.

Tables 2A–2B

The consolidated statistics are based mainly on the country of incorporation of the reporting institutions and measure the international lending activities of banks' head offices in the reporting countries and all their offices at home and abroad, with positions between offices of the same bank being netted out. The data in Table 2A cover BIS reporting banks' worldwide consolidated claims on an immediate borrower basis. These contractual claims are not adjusted for risk mitigants, such as guarantees and collateral. The 30 reporting countries comprise the G10 countries plus Australia, Austria, Brazil, Chile, Chinese Taipei, Denmark, Finland, Greece, Hong Kong SAR, India, Ireland, Luxembourg, Mexico, Norway, Panama, Portugal, Singapore, Spain and Turkey. The data in Table 2B cover BIS reporting banks' worldwide consolidated claims on an ultimate risk basis. These contractual claims are adjusted for risk mitigants, such as guarantees and collateral. The reporting population is a subset of 24 countries which reports both sets of data and comprises Australia, Austria, Belgium, Canada, Chile, Chinese Taipei, Finland, France, Germany, Greece, India, Ireland, Italy, Japan, the Netherlands, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. In table 2B, German banks' foreign claims vis-à-vis developed countries are on an immediate borrower basis. The data in Table 2A cover both foreign and international claims, while Table 2B covers foreign claims only. International claims are defined as BIS reporting banks' cross-border claims in all currencies plus the local claims of their foreign affiliates in foreign currency. Foreign claims include, in addition, reporting banks' foreign affiliates' local claims in local currency, as shown below.

Types of claims

The shaded area indicates claims excluded from the consolidated banking statistics; bold italics indicate claims published within the consolidated banking statistics.

Austria and Portugal report on a partially consolidated basis. Detailed information on breaks in series in the consolidated banking statistics is available on the BIS website under http://www.bis.org/statistics/consstats.htm.

Tables 3A–3B

The methodology used to compile the international and domestic debt securities statistics and a description of the coverage can be found on pages 13 to 17 of the *Guide to the international financial statistics*, available at http://www.bis.org/publ/bispap14.htm.

The sectoral breakdown presents data based on the sector of the borrower itself and not on the sector of the parent company of the borrower or any guarantor. "Governments" comprise central governments, other governments and central banks. "Financial institutions" comprise commercial banks and other financial institutions.

The international debt securities data include "repackaged securities", for example the new global issues of Argentina, resulting from the April 2005 exchange offer.

Table 4

The data in Table 4 cover the activity recorded in the global over-the-counter (OTC) and exchange-traded derivatives markets. The data on exchange-traded derivatives are obtained from market sources, while those on OTC derivatives are based on the reporting to the BIS by central banks in major financial centres that in turn collect the information on a consolidated basis from reporting dealers headquartered in their respective countries.

The data on OTC derivatives are available in terms of notional amounts outstanding, gross market values and gross credit exposure. Gross credit exposure excludes credit default swap contracts for all countries except the United States. These statistics are adjusted for inter-dealer double-counting and cover foreign exchange, interest rate, equity, commodity and credit derivatives.

For the exchange-traded derivatives, data on open interest measured in terms of US dollars are available for the main financial derivatives contracts (interest rate, currency and equity-linked derivatives).

Information on the methodology used to compile these statistical sets and a more detailed description of their coverage can be found on pages 18 to 21 of the *Guide to the international financial statistics*, available at http://www.bis.org/publ/bispap14.htm.

Special features in the BIS Quarterly Review

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June 2011	Rating methodologies for banks	F Packer and N Tarashev
June 2011	The predictive content of financial cycle measures for output fluctuations	T Ng
June 2011	Expansion of central clearing	D Heller and N Vause
March 2011	Systemic importance: some simple indicators	M Drehmann and N Tarashev
March 2011	Inflation expectations and the great recession	P Gerlach, P Hördahl and R Moessner
March 2011	The use of reserve requirements as a policy instrument in Latin America	C Montoro and R Moreno
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December 2010	The $4 trillion question: what explains FX growth since the 2007 survey?	M R King and D Rime
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December 2010	A user's guide to the Triennial Central Bank Survey of foreign exchange market activity	M R King and C Mallo
September 2010	Debt reduction after crises	G Tang and C Upper
September 2010	The collapse of international bank finance during the crisis: evidence from syndicated loan markets	M Chui, D Domanski, P Kugler and J Shek
September 2010	Options for meeting the demand for international liquidity during financial crises	R Moessner and W A Allen
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March 2010	The architecture of global banking: from international to multinational	R McCauley, P McGuire and G von Peter
March 2010	Exchange rates during financial crises	M Kohler
March 2010	The dependence of the financial system on central bank and government support	P Gerlach
March 2010	The term "macroprudential": origins and evolution	P Clement

Recent BIS publications[1]

Working Papers

Weathering the financial crisis: good policy or good luck?
Stephen Cecchetti, Michael R King and James Yetman

http://www.bis.org/publ/work351.htm

The macroeconomic performance of individual countries varied markedly during the 2007–09 global financial crisis. While China's growth never dipped below 6% and Australia's worst quarter was no growth, the economies of Japan, Mexico and the United Kingdom suffered annualised GDP contractions of 5–10% per quarter for five to seven quarters in a row. We exploit this cross-country variation to examine whether a country's macroeconomic performance over this period was the result of pre-crisis policy decisions or just good luck. The answer is a bit of both. Better-performing economies featured a better-capitalised banking sector, lower loan-to-deposit ratios, a current account surplus, high foreign exchange reserves and low levels and growth rates of private sector credit-to-GDP. In other words, sound policy decisions and institutions reduced their vulnerability to the financial crisis. But these economies also featured a low level of financial openness and less exposure to US creditors, suggesting that good luck played a part.

The value of repeat lending
Blaise Gadanecz, Alper Kara and Philip Molyneux

http://www.bis.org/publ/work350.htm

The unique structure of syndicated lending results in information asymmetries within the lending syndicate between banks of varying degrees of seniority. While previous studies have attempted to use indirect proxy measures to capture the effects of such information asymmetries, in this paper we propose a more direct measure. This offers new insights into how junior and senior banks rely on their own and each other's information sets in lending syndicates. In particular, we look at the previous number of borrowing/lending relationships between individual borrowers and lenders and the duration of these interactions. Using this new, direct and explicit measure on a sample of 5,842 syndicated loan transactions between 1993 and 2006, we find that when participant banks have information inferiority in the syndicate they require higher loan spreads to compensate for this asymmetry. This is amplified when the borrowers are more opaque. We thus show how junior participant banks with repeat relationships with the same borrower graduate from uniformed to informed lenders (the spread goes down as asymmetry diminishes) and how they rely both on the arranger's reputation and their own repeat experience with the borrower.

How do inflation expectations form? New insights from a high-frequency survey
Gabriele Galati, Peter Heemeijer and Richhild Moessner

http://www.bis.org/publ/work349.htm

We provide new insights on the formation of inflation expectations - in particular at a time of great financial and economic turmoil – by evaluating results from a survey conducted from July 2009 through July 2010. Participants in this survey answered a weekly questionnaire about their short-, medium- and long-term inflation expectations. Participants received common information sets with data relevant to euro area inflation. Our analysis of survey responses reveals several interesting results. First, our evidence is consistent with long-term expectations having remained well anchored to the ECB's definition of price stability, which acted as a focal point for long-term expectations. Second, the turmoil in euro area bond markets triggered by the Greek fiscal crisis influenced short- and medium-term inflation expectations but had only a very small impact on long-term expectations. By contrast, longterm expectations did not react to developments of the euro area wide fiscal burden. Third, participants changed their expectations fairly frequently. The longer the horizon, the less frequent but larger these changes were. Fourth, expectations exhibit a large degree of timevariant non-normality. Fifth, inflation expectations appear fairly homogenous across groups of agents at the shorter horizon but less so at the medium- and long-term horizons.

The international propagation of the financial crisis of 2008 and a comparison with 1931
William A Allen and Richhild Moessner

http://www.bis.org/publ/work348.htm

We examine the international propagation of the financial crisis of 2008, and compare it with that of the crisis of 1931. We argue that the collateral squeeze in the United States, which became intense after the failure of Lehman Brothers created doubts about the stability of other financial companies, was an important propagator in 2008. We identify some common features in the propagation of the two crises, the most important being the flight to liquidity and safety. In both crises, deposit outflows were not the only important sources of liquidity pressure on banks: in 1931, the central European acceptances of the London merchant banks were a serious problem, as, in 2008, were the liquidity commitments that commercial banks had provided to shadow banks. And in both crises, the behaviour of creditors towards debtors, and the valuation of assets by creditors, were very important. However, there was a very important difference between the two crises in the range and nature of assets that were regarded as liquid and safe. Central banks in 2008, with no gold standard constraint, could liquefy illiquid assets on a much greater scale.

[1] Requests for publications should be addressed to: Bank for International Settlements, Press and Communications, Centralbahnplatz 2, CH-4002 Basel. These publications are also available on the BIS website (www.bis.org).

On harnessing the potential of financial inclusion
Peter Dittus and Michael Klein

http://www.bis.org/publ/work347.htm

The development of information and communications technology is opening up the opportunity for providing essential financial services to most people. Indeed, many mobile money or branchless banking schemes are currently spreading across the world. However, these schemes can only be sustainable if they are built on a commercially viable business model. In this respect, the jury is still out. The paper describes one commercially viable initiative in more detail, M-PESA in Kenya, and analyses in detail the transactions involved. It argues that in order to harness the potential of financial inclusion it is vital to permit experimentation with different business models. Regulation is therefore required that enables such experimentation by being calibrated to the type of service offered, but which can be tightened if and when such schemes become bigger with the potential to impact financial stability: risk-proportionate regulation by service type.

Global imbalances and the financial crisis: Link or no link?
Claudio Borio and Piti Disyatat

http://www.bis.org/publ/work346.htm

Global current account imbalances have been at the forefront of policy debates over the past few years. Many observers have recently singled them out as a key factor contributing to the global financial crisis. Current account surpluses in several emerging market economies are said to have helped fuel the credit booms and risk-taking in the major advanced deficit countries at the core of the crisis, by putting significant downward pressure on world interest rates and/or by simply financing the booms in those countries (the "excess saving" view). We argue that this perspective on global imbalances bears reconsideration. We highlight two conceptual problems: (i) drawing inferences about a country's cross-border financing activity based on observations of net capital flows; and (ii) explaining market interest rates through the saving-investment framework. We trace the shortcomings of this perspective to a failure to consider the distinguishing characteristics of a monetary economy. We conjecture that the main contributing factor to the financial crisis was not "excess saving" but the "excess elasticity" of the international monetary and financial system: the monetary and financial regimes in place failed to restrain the build-up of unsustainable credit and asset price booms ("financial imbalances"). Credit creation, a defining feature of a monetary economy, plays a key role in this story.

Basel Committee on Banking Supervision

Global systemically important banks: Assessment methodology and the additional loss absorbency requirement – consultative document
July 2011

http://www.bis.org/publ/bcbs201.htm

This consultative document sets out the proposal from the Basel Committee on the assessment methodology for global systemic importance, the magnitude of additional loss absorbency that global systemically important banks should have, and the arrangements by which they will be phased in. The work of the Basel Committee forms part of a broader effort by the Financial Stability Board to reduce the moral hazard of global systemically important institutions.

The rationale for the policy measures set out in the document is to deal with the cross-border negative externalities created by global systemically important banks which current regulatory policies do not fully address. The measures will enhance the going-concern loss absorbency of global systemically important banks and reduce the probability of their failure.

The assessment methodology for global systemically important banks is based on an indicator-based approach and comprises five broad categories: size, interconnectedness, lack of substitutability, global (cross-jurisdictional) activity and complexity.

The additional loss absorbency requirements are to be met with a progressive Common Equity Tier 1 (CET1) capital requirement ranging from 1% to 2.5%, depending on a bank's systemic importance. To provide a disincentive for banks facing the highest charge to increase materially their global systemic importance in the future, an additional 1% loss absorbency would be applied in such circumstances.

The higher loss absorbency requirements will be introduced in parallel with the Basel III capital conservation and countercyclical buffers, ie between 1 January 2016 and year end 2018 becoming fully effective on 1 January 2019.

Report on asset securitisation incentives
July 2011

http://www.bis.org/publ/joint26.htm

The Report analyses the incentives to engage in securitisation throughout the market before the financial crisis, the distortions created by misalignments and conflicts of interest which emerged, and the interplay of incentives in the aftermath of the crisis. It also examines some of the reasons why there has yet to be a meaningful recovery in securitisation activity.

The Report recognises regulators can play a role in establishing a framework for securitisation that ensures that it is conducted in a prudent manner, continues to be an alternative funding source for institutions, and contributes to the availability of credit to support the real economy. They can do this by building a regulatory and supervisory framework which addresses the misaligned incentives and conflicts of interest and which supports enhanced disclosure and transparency for investors. The Report encourages policy makers, regulators and supervisors to strive for internationally and cross-sectorally consistent supervisory frameworks, and to develop and implement regulations in a timely manner.

The Report further sets out three recommendations (some of which build on earlier work of Parent Committees). These recommendations specify that:

- Authorities should employ a broad suite of tools to address misaligned incentives, which may include measures to improve loan origination standards, and to align compensation arrangements with long-term performance and asset quality.
- Authorities should encourage markets to improve transparency to ensure that investors, other market participants, and supervisors have access to relevant and reliable information.
- Authorities should encourage greater document standardisation and less product complexity, which should assist in reducing information asymmetries and stimulating liquidity in secondary securitisation markets.

Resolution policies and frameworks – progress so far
July 2011

http://www.bis.org/publ/bcbs200.htm

The report reflects the progress being made in the area of cross-border bank resolution since the Basel Committee published a set of ten recommendations in March 2010. The report also responds to the Financial Stability Board November 2010 recommendations on systemically important financial institutions for an assessment of the legislative and other changes to national regimes and policies needed to accomplish effective resolution of systemically important financial institutions.
The key findings of the report are:

- Progress has been made in many jurisdictions with the adoption of special administrative resolution regimes aimed at the maintenance of financial stability and the protection of depositors. A critical feature of these regimes is to transfer part or all of a failing bank's assets, liabilities and financial contracts to a bridge bank.
- Some jurisdictions continue to lack these and other important legal powers set out in the Basel Committee's 2010 recommendations or continue to rely on general corporate insolvency procedures. Such procedures are too slow, too costly and come too late to resolve a failing bank in manner that ensures continuity of its essential financial functions.
- Further work is required on cross-border resolution as complications continue to arise from discrepancies among national regimes. In particular, these relate to legal powers, the ranking of depositor and other creditor claims, and the capacity of national authorities to share information and coordinate actions with resolution authorities in other jurisdictions.
- The legal, operational and cross-border complexities underline the crucial importance of effective contingency planning and the need for actions that reduce unnecessary complexity and promote resolvability. Some jurisdictions are working on solutions that involve improved risk management or reductions of intra-group guarantees.
- National authorities appear to be at different stages of developing recovery and resolution plans for systemically important financial institutions. In view of the importance of these plans for systemic stability, national authorities will need to move forward quickly in this area.
- The Committee's report stresses the need to accelerate reforms of domestic resolution regimes and tools and of frameworks for cross-border enforcement of resolution actions.

Basel III framework for liquidity – Frequently asked questions
July 2011

http://www.bis.org/publ/bcbs199.htm

The Basel Committee on Banking Supervision has received a number of interpretation questions related to the 16 December 2010 publication of the Basel III regulatory frameworks for capital and liquidity. To help ensure a consistent global implementation of Basel III, the Committee has agreed to periodically review frequently asked questions and publish answers along with any technical elaboration of the rules text and interpretative guidance that may be necessary.
This document sets out the first set of frequently asked questions that relate to Basel III's liquidity rules. The first section of the document provides clarification on the calculation of the cap on Level 2 assets with regard to short-term secured funding. Section 2 addresses other questions and answers pertaining to the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) of the rules text. Section 3 sets out miscellaneous edits to the rules text.

Basel III definition of capital – Frequently asked questions
July 2011

http://www.bis.org/publ/bcbs198.htm

The Basel Committee on Banking Supervision has received a number of interpretation questions related to the 16 December 2010 publication of the Basel III regulatory frameworks for capital and liquidity and the 13 January 2011 press release on the loss absorbency of capital at the point of non-viability. To help ensure a consistent global implementation of Basel III, the Committee has agreed to periodically review frequently asked questions and publish answers along with any technical elaboration of the rules text and interpretative guidance that may be necessary.
This document sets out the first set of frequently asked questions that relate to the definition of capital sections of the Basel III rules text. The questions and answers are grouped according to the relevant paragraphs of the rules text.

Pillar 3 disclosure requirements for remuneration – final document
July 2011

http://www.bis.org/publ/bcbs197.htm

The objective of these additional Pillar 3 requirements on remuneration is to support an effective market discipline and to allow market participants to assess the quality of a bank's compensation practices. These requirements should also contribute to promote a greater convergence and consistency of disclosure on remuneration.
The Committee's proposed Pillar 3 disclosure requirements on remuneration add greater specificity to the disclosure guidance on this topic that was included in the supplemental Pillar 2 guidance issued by the Committee in July 2009. The proposals cover the main components of sound remuneration practices and take full account of the Financial Stability Board's Principles for Sound Compensation Practices and their related Implementation Standards.

Operational Risk – Supervisory Guidelines for the Advanced Measurement Approaches – final document
June 2011

http://www.bis.org/publ/bcbs196.htm

The Basel Committee on Banking Supervision issued two papers on operational risk: Principles for the Sound Management of Operational Risk and Operational Risk – Supervisory Guidelines for the Advanced Measurement Approaches.
The regulatory capital adequacy framework envisages that, over time, the operational risk discipline will continue to mature and converge towards a narrower band of effective risk management and measurement practices. The guidance on advanced measurement approaches promotes improvement in this area by setting out supervisory guidelines relating to governance, data and modelling.
A consultative version of this report was issued for public consultation in December 2010. The Committee appreciates the constructive comments received and thanks those who have taken the time and effort to express their views on the consultative document.

Principles for the Sound Management of Operational Risk – final document
June 2011

http://www.bis.org/publ/bcbs195.htm

The Basel Committee on Banking Supervision issued two papers on operational risk: Principles for the Sound Management of Operational Risk and Operational Risk – Supervisory Guidelines for the Advanced Measurement Approaches.
Principles for the Sound Management of Operational Risk, which was originally issued in 2003 as Sound Practices for the Management and Supervision of Operational Risk, highlights the evolution of operational risk management over this period. The principles outlined in the report are based on best industry practice and supervisory experience and cover three overarching themes: governance, risk management and disclosure.
A consultative version of this report was issued for public consultation in December 2010. The Committee appreciates the constructive comments received and thanks those who have taken the time and effort to express their views on the consultative document.

Basel III: A global regulatory framework for more resilient banks and banking systems – revised version June 2011
June 2011

http://www.bis.org/publ/bcbs189.htm

Comments on the revision:
On 1 June 2011, the Basel Committee on Banking Supervision announced that it has completed its review of and finalised the Basel III capital treatment for counterparty credit risk in bilateral trades. The review resulted in a minor modification of the credit valuation adjustment, which is the risk of loss caused by changes in the credit spread of a counterparty due to changes in its credit quality (also referred to as the market value of counterparty credit risk). See the related press release.
A revised version of the Basel III capital rules reflecting the CVA modification is now available on the BIS website. The original version was published in December 2010.

Committee on the Global Financial System

Fixed income strategies of insurance companies and pension funds
July 2011

http://www.bis.org/publ/cgfs44.htm

Insurance companies and pension funds are at the intersection of major developments. Having weathered the financial crisis, they now face important changes in international regulation and accounting standards. At the same time, their business models and balance sheets remain exposed to the low-interest rate environment.
Against this backdrop, the present report examines how life insurance companies and pension funds might alter their investment strategies and asset allocations, and assesses the likely consequences for market functioning and funding of various economic sectors arising from such changes.

The impact of sovereign credit risk on bank funding conditions
July 2011

http://www.bis.org/publ/cgfs43.htm

Sovereign credit risk is currently a significant issue for European banks and over coming years may have implications for global financial stability.
This report examines the relationship between sovereign credit risk and bank funding conditions, how banks might respond to an environment of ongoing elevated sovereign risk and the implications for policy makers. It was prepared by a Study Group chaired by Fabio Panetta from the Bank of Italy.
The report concludes that increases in sovereign credit risk push up the cost and weaken the composition of banks' funding, and that banks cannot fully insulate themselves by adjusting their operations. As a consequence, the official sector has a key role in minimising the impact of weaker public finance conditions on banks, but there are trade-offs. First and foremost, governments need to maintain sound public finance conditions. Bank supervisors should also closely monitor the interaction of sovereign risk with regulatory policies that encourage banks to hold large quantities of public debt. Central banks might also consider having flexible collateral frameworks that, during severe crises, allow funding to be supplied against a broad range of collateral, but this is not costless, and hence should be used sparingly and with appropriate safeguards in place.

Committee on Payment and Settlement Systems

Payment, clearing and settlement systems in the CPSS countries – Volume 1
September 2011

http://www.bis.org/publ/cpss97.htm

The Committee on Payment and Settlement Systems (CPSS) publishes – under the aegis of the Bank for International Settlements (BIS) – reference works on the payment systems and other financial market infrastructures of various countries, widely known as Red Books.
The Red Book for the CPSS countries was last published in April 2003. After the enlargement of the CPSS to 24 countries in 2009, this edition of the Red Book for the CPSS countries is in two volumes. This first volume comprises 10 CPSS countries: Australia, Brazil, Canada, India, Korea, Mexico, Russia, Singapore, Sweden and Switzerland. The second volume, which covers Belgium, China, France, Germany, Hong Kong SAR, Italy, Japan, the Netherlands, Saudi Arabia, South Africa, Turkey, the United Kingdom and the United States and also has chapters on the euro area and international payment arrangements, is planned to be published in 2012.
Properly functioning financial market infrastructures enhance the stability of the financial sector, reduce transaction costs in the economy, promote the efficient use of financial resources, improve financial market liquidity and facilitate the conduct of monetary policy. I hope that this new edition of the CPSS Red Book will contribute to the general understanding and awareness of these issues by providing information on the arrangements in the CPSS countries.
I would like to thank all those who contributed to the publication of this Red Book by writing their country texts. Thanks also to the BIS staff for making this volume ready for publication, and particularly to David Maurer, who coordinated the production and led the process of editing the country texts.
William C Dudley, Chairman
Committee on Payment and Settlement Systems

Report on OTC derivatives data reporting and aggregation requirements – consultative report
August 2011

http://www.bis.org/publ/cpss96.htm

This consultation report is about the OTC derivatives data that should be collected, stored and disseminated by trade repositories (TRs). CPSS and IOSCO support the view that TRs, by collecting such data centrally, would provide the authorities and the public with better and timely information. This would make markets more transparent, help to prevent market abuse and promote financial stability.
The report addresses Recommendation 19 in the October 2010 report of the Financial Stability Board (FSB), Implementing OTC derivatives market reforms, which called on the CPSS and IOSCO to consult with the authorities and the OTC Derivatives Regulators Forum in developing:
(i) minimum data reporting requirements and standardised formats, and
(ii) the methodology and mechanism for data aggregation on a global basis.
The proposed requirements and data formats will apply to both market participants reporting to TRs and to TRs reporting to the public and to regulators. The report also finds that certain information currently not supported by TRs would be helpful in assessing systemic risk and financial stability, and discusses options for bridging these gaps.
Issues relating to data access for the authorities and reporting entities are discussed, including methods and tools that could provide the authorities with better access to data. Public dissemination of data, it is noted, promotes the understanding of OTC derivatives markets by all stakeholders, underpins investor protection and facilitates the exercise of market discipline.
The report also covers the mechanisms and tools that the authorities will need to aggregate OTC derivatives data. It advocates a system of standard legal entity identifiers (LEIs) as an essential tool for aggregation of such data. It further recommends that TRs actively participate in the LEI's development and use the system once it becomes available. As the implementation of a universal LEI will require international cooperation, it is noted that further international consultation would be beneficial.
Comments on the report are invited from all interested parties and should be sent by 23 September 2011 to both the CPSS secretariat (cpss@bis.org) and the IOSCO secretariat (OTC-Data-Report@iosco.org). Published along with the report is a cover note that sets out specific issues on which the committees seek comments during the public consultation period. The comments will be published on the websites of the BIS and IOSCO unless commentators have requested otherwise.
After the consultation period, the CPSS and IOSCO will review all comments received and publish a final report by the end of 2011.

Speeches

Regulatory reform: remaining challenges

Speech by Mr Jaime Caruana, General Manager of the BIS, at the annual Pierre Werner Lecture, Luxembourg, 7 July 2011

http://www.bis.org/speeches/sp110711.htm

Despite significant progress in a number of crucial areas since the global financial crisis, the global economy and financial system remain vulnerable to unexpected shocks, and the likelihood of some adverse scenarios materialising has not decreased. There remain important challenges for financial reform.
These fall into four broad groups. First, there is a need to consistently implement the substantial reforms already agreed. Basel III raises the level and quality of capital in the system, improves risk capture, calls for the conversion of all regulatory capital to common equity at the point of non-viability and, for the first time, sets standards for liquidity. Second, there is a need to build a resilient financial system given a still weak recovery. Two studies conducted last year under the auspices of the BIS found that the growth costs of implementing Basel III, both in the transition and in the steady state,

are likely to be modest, and far outweighed by the benefits. A sound recovery is contingent on having a secure financial system. Third, there is a need to complete the regulatory reform agenda. In particular, systemically important financial firms need higher loss absorption capacity and sound resolution frameworks, while the risks relating to shadow banking must be monitored and reduced. And fourth, there is a need to ensure adequate oversight, both macroprudential oversight and more proactive prudential supervision.
Completing the regulatory reform agenda and seeing that it is implemented are part of the broader challenge of providing a framework for macroeconomic stability. All three elements of policy – fiscal, monetary and prudential – will need to work together to deliver strong, sustainable global growth.

Central banking between past and future: which way forward after the crisis?

Speech by Mr Jaime Caruana, General Manager of the BIS, at the South African Reserve Bank 90th Anniversary Seminar, Pretoria, 1 July 2011

http://www.bis.org/speeches/sp110707.htm

Central banks face serious economic, intellectual and institutional challenges in the years ahead. In meeting these challenges, central banks should consider four guidelines. First, monetary policy strategies should allow central banks to lean against the build-up of financial imbalances even if near-term inflation remains low and stable. This calls for an extension of policy horizons beyond the typical two years. Second, the monetary policy responses to financial busts should be more balanced. The currently prevailing view, which prescribes very aggressive and prolonged monetary easing, underestimates the resulting collateral damage. Third, monetary policy should take into account spillover effects across currency areas. In a highly integrated world, purely domestically oriented policy approaches are bound to be inadequate. Fourth, central banks need operational independence in the pursuit of new tasks in financial regulation and supervision. The well known arguments for central bank independence in the context of price stability apply with even greater force in the context of financial stability.

General Manager's statement

Statement by Mr Jaime Caruana, General Manager of the BIS, at the BIS press conference on the occasion of the Bank's Annual General Meeting, Basel, 26 June 2011

http://www.bis.org/speeches/sp110626b.htm

A warm welcome to you all. I am accompanied by Stephen Cecchetti, who is the BIS Economic Adviser and Head of our Monetary and Economic Department. Before Steve and I take your questions on this year's Annual Report, I would like to highlight its main messages.
In a number of crucial respects, the picture today is better than it was a year ago, and much better than it was two years ago. The gap between world demand and productive capacity is closing. The global economy is growing at a respectable rate. In some of the economies hardest hit by the financial crisis, output is back to its pre-crisis level. The resurgence of demand has put concerns about deflation behind us. And international regulatory reform has proceeded speedily. The agreement on Basel III is a major step forward.
After four years, however, the financial crisis and the ensuing policy responses still cast long shadows. Global growth is uneven. As evidenced by the sovereign debt crises that have erupted, the threats posed by the unsustainable trajectories of public sector debt have materialised. With energy and commodity prices soaring, inflation has become a reality in many countries and a threat in others. In the crisis-hit countries, the repair of private sector balance sheets still has some way to go, and excess capacity still burdens the financial and construction sectors. Financial systems remain vulnerable. And looking outside the countries that were at the centre of the financial crisis, we also see several emerging market economies in which domestic asset prices and credit are surging – all too familiar signs of the build-up of financial vulnerabilities. And as these developments unfold, global monetary and financial conditions remain unusually accommodative.
These developments raise serious risks for the economic outlook and financial stability. And they all reflect the challenges left by the financial crisis. The boom phase of the financial cycle had raised output growth beyond sustainable rates while masking sectoral distortions and growing vulnerabilities. The resulting imbalances now need to be rectified, and as they are, growth is bound to be slow. Policymakers should not hinder this inevitable adjustment.
The overarching policy challenge is to build a solid foundation for robust, stable and sustainable growth. This requires urgent policy actions now – fiscal, monetary, structural and prudential – taking a long view to avoid larger costs in the future. All of these play a role in a new policy framework designed to ensure lasting monetary and financial stability.
Let me say a few words about each of these – both the actions and the framework.
First, the need for fiscal consolidation is even more urgent than it was a year ago. Pushed up by commitments to ageing populations, industrial countries' fiscal trajectories have been on an unsustainable path for some time. But the financial crisis, and the response to it, brought the fiscal reckoning forward. In countries that experienced asset price and credit booms, policymakers have come to recognise the significant hole left by the collapse in temporarily inflated revenues. While fiscal problems are most apparent in several euro area countries, other major economies also need to manage their situations carefully and make efforts to consolidate fiscal positions quickly, not least because they have a big impact on global financial conditions.
Second, there is a need to normalise monetary policy. Globally, real short-term interest rates, already negative, fell further over the past year. Normalising rates would reduce the incentives to take excessive risk and would support necessary structural and balance-sheet adjustments. It would help restrain the build-up of financial imbalances in the economies where growth is most vibrant and contribute to correcting current account imbalances. The more active use of macroprudential measures in emerging market economies is welcome, but it cannot substitute for monetary tightening. Normalising monetary policy can also complement the structural policies needed to move us away from the unsustainable combination of leverage-led and export-led growth.
Third, excess capacity in the financial and real estate sectors must be addressed. In the financial sector, tough stress tests, supported by recapitalisation measures, are essential. But they need to be complemented by policies that reduce excess capacity in the financial sector and lay the basis for sustainable profitability. Without a stronger and leaner financial system, it will be impossible to withdraw the extensive public support that is still in place.

Fourth, Basel III needs full and consistent implementation worldwide. Beyond that, we need higher standards and credible resolution mechanisms for systemically important financial institutions; we must monitor and reduce the risks posed by shadow banking systems; and the financial statistics we use must be improved.

The road ahead is likely to be bumpy. Making sure that banks are prepared for shocks requires building strength now. Instead of taking the maximum time to reach the minimum standards, there is a good case for going faster and going further. Perhaps this time we will see a virtuous race to the top.

The more enduring lessons of the crisis, however, are not just about policy actions, but also about policy frameworks. Building a solid foundation for monetary and financial stability requires fiscal policy that builds up the buffers required for crisis management; monetary policy that actively supports financial stability; and regulation and supervision that has a strong macroprudential orientation. This framework necessarily rejects short-termism in favour of a long-term view. And it builds on the principle that keeping one's house in order is essential but not enough: international policy cooperation is critical.

Building a lasting foundation for sustainable growth

Speech delivered by Mr Jaime Caruana, General Manager of the BIS, on the occasion of the Bank's Annual General Meeting, Basel, 26 June 2011

http://www.bis.org/speeches/sp110626a.htm

Good afternoon, ladies and gentlemen,

In a number of crucial respects, the picture today is better than it was a year ago, and much better than it was in June 2009. While serious vulnerabilities remain and hard work lies ahead, it is important that we don't lose sight of how far we have come.

Taking the global economy as a whole, the gap between world demand and productive capacity is closing. And the world economy is growing at a historically respectable rate of around 4 per cent. The recovery, although slow and uneven, has raised output to its pre-crisis levels in some of the countries hardest hit. The resurgence of demand has put concerns about deflation behind us. Accordingly, the need for continued extraordinary monetary accommodation has faded.

The financial reform agenda has moved forward rapidly with the agreement reached on Basel III. Banks have already increased their capital base significantly. A macroprudential approach that focuses on systemic risk forms a fundamental part of the new framework and internationally agreed standards. These are no small achievements, and not one of them was assured a year ago.

After four years, however, the financial crisis and the ensuing policy responses continue to cast long shadows. Economies and financial systems are still vulnerable to even modest shocks, and the likelihood of severely adverse developments has not decreased. The global recovery remains uneven, and global headline inflation has risen a full percentage point, to 3.6 per cent, since April of last year.

In the advanced economies at the centre of the crisis, overall deleveraging and structural adjustment is still incomplete. Excess capacity remains in the financial and construction sectors. The repair of private balance sheets still has some way to go. And the threats posed by public sector debt have materialised, reaching a crisis point in some countries. There are still substantial risks of contagion between sovereign and financial sector fragilities.

Some emerging market economies exhibit the all-too-familiar signs of rising financial vulnerabilities, as domestic credit and asset prices surge. Sizeable current account imbalances are very much with us, and gross capital flows pose risks even to economies running current account surpluses. As these developments unfold, global monetary and financial conditions remain unusually accommodative.

In the remainder of my remarks, I will describe these legacies of the crisis, and then turn to the policies – fiscal, monetary, structural and prudential – that can contribute to the lasting foundation for robust, stable and sustainable growth. Those policies, in turn, need to be part of a broader, integrated framework in which policymakers act promptly both with a long-term perspective – paying modest costs today to avoid larger costs tomorrow – and with attention to the global repercussions of their policies. In the end, cooperation will make everyone better off.

Challenges and policies for stable and sustainable growth

As we leave the crisis behind us, it is important to understand the underlying source of the challenges it has left. We experienced the bust of a global financial cycle. During the preceding boom, there was a tendency not only to underestimate financial risk, but to overestimate the economy's potential growth rate and its capacity to generate sustainable tax revenue. And associated with this was a failure to recognise emerging structural imbalances that would ultimately damage the foundations of sustainable long-run growth.

I will highlight four challenges that were left by the crisis: fiscal reckoning; inflation; excess capacity together with the unfinished adjustment of private sector balance sheets; and financial vulnerabilities.

Fiscal reckoning

The economic downturn, the tax cuts and expenditure increases in response to the crisis, and the cost of recapitalising the financial sector have all brought forward the fiscal reckoning. In countries that experienced credit booms, policymakers have come to recognise the significant hole left by the collapse in tax revenues that had been only temporarily boosted by the boom. The aftermath is a sovereign debt crisis.

In many cases, recent events simply brought forward an approaching problem. Without corrective measures, the fiscal trajectories of some of the world's largest advanced economies are unsustainable. This is not news. Rising dependency ratios, expensive publicly funded programmes for retirement and health care and the like put future commitments well in excess of future revenues. Financial market participants can ignore such looming problems for a long time until, suddenly, they enforce changes that are swift and painful.

Thus, the need for fiscal consolidation is even more urgent than when I spoke a year ago. According to the OECD, the average OECD country must improve its primary balance by nearly 7 per cent of GDP just to stabilise its debt-to-GDP ratio by 2026.

We will not have lasting macroeconomic and financial stability until we have taken decisive measures to put public finances on a sound and credible path. The creditworthiness of the sovereign is a prerequisite for a well-functioning economy. The default of the sovereign breaks the social contract and undermines the trust that is essential to the smooth running of both the state and the economy. No economy – no matter how large, rich and
powerful – is immune to the risks posed by fiscal incoherence.

Nowhere is the link between fiscal sustainability and financial health more apparent than in parts of Europe today. In some European countries, vulnerabilities in the financial sector weakened the state; in others, public sector weakness has infected the banks; in all, the resulting fragilities now jeopardise the benefits of economic and financial integration. There

is no easy way out, no shortcut, no painless solution – that is, no alternative to the rigorous implementation of comprehensive country packages including strict fiscal consolidation and structural reforms. The design of the euro area's fiscal and competitiveness arrangements must lead to predictable, reliable and less discretionary early corrective action in good times.

Unfortunately, Europe does not have a monopoly on urgent fiscal challenges. The big economies also need to manage their situations carefully and make efforts to consolidate fiscal positions quickly, not least because they have a big impact on global financial conditions.

Inflation, side-effects and low interest rates

The welcome recovery and absorption of spare resources have brought with them the less welcome spectre of inflation. As they did in the early 1970s, booming commodity prices may point to a more serious problem. Prices of food, energy, metals and the like are more sensitive to shifts in supply and demand than are the prices of either manufactured goods or services. And, unlike in the past two decades, prices of internationally traded manufactured goods look to provide little inflation offset, as wages and prices are rising in emerging markets. Despite the apparent persistence of slack in some parts of the world, there are risks of second-round effects and of rising inflation expectations.

Very accommodative monetary policy conditions in the economic regions most affected by the turmoil have been transmitted globally through bond and equity markets and bank credit. Double-digit growth in US dollar loans to non-US residents is just one example of how borrowing in major currencies is providing cheap credit even where central banks have tightened.

Extraordinarily loose financial conditions may have undesirable side-effects. We are all familiar with the list. Low interest rates can delay balance-sheet repair, encourage dangerous risk-taking in segments of financial markets and, in the process, make the eventual exit from official support more hazardous. They can intensify investors' eagerness to place funds in booming emerging market economies, encouraging the build-up of financial imbalances there. The more active deployment of macroprudential tools in emerging market economies is welcome, but cannot substitute for monetary tightening. The longer that interest rates are low, the more severe these side-effects and the greater the risk of a disruption when yields inevitably rise.

There is a need to normalise monetary policy. The prevailing, extraordinarily accommodative policy rates will not deliver lasting monetary and financial stability. Real short-term interest rates have actually fallen in the past year, from minus 0.6 per cent to minus 1.3 per cent globally.

History teaches us that recoveries from financial crises are slower and less robust than those after ordinary recessions. After a financial crisis, it takes longer for debt burdens to fall, balance sheets to be repaired, unproductive capital to be scrapped, and labour to be reallocated. Policymakers should not hinder this inevitable adjustment. Normalising policy too late and too slowly may undermine inflation-fighting credibility as well as risk further damage from the delay of structural and balance-sheet adjustments. More normal interest rates lessen the temptation to muddle through, and they place the focus squarely on the needed adjustments.

Monetary policy tightening can also aid the adjustment in current account imbalances. By encouraging currency appreciation in countries that are growing more quickly, it will contribute to correcting imbalances there. It can also complement the structural policies needed to rebalance growth patterns globally, moving us away from the unsustainable combination of leverage-led and export-led growth.

Excess capacity and unfinished balance-sheet adjustments

Excess capacity in finance and real estate points to unfinished adjustments in the crisis-stricken economies. The financial industry has built capital buffers, but overall leverage in the economy – private and public – remains too high. The simple mean of household debt-to-GDP for the US, the UK and Spain declined by only 2 percentage points from 2007 to the end of 2010, while over the same period for the same countries, government debt-to-GDP rose 30 percentage points.

Until losses are revealed and balance sheets repaired, funding problems and distortions will persist. This is an important feature of economies after the bust of a credit boom. In particular, the post-crisis financial system remains large relative to the economy as a whole: excess leverage and excess capacity have not been shed.

Policymakers must intensify their efforts to promote the repair of financial sector balance sheets and to set the conditions for banks' long-term profitability. The macroeconomic road is likely to be at least as bumpy next year as it has been this year. This means making sure that banks are ready when the next shock inevitably comes. Tough stress tests, supported by recapitalisation measures, are essential.

Moreover, without a stronger and leaner financial system, it will be impossible to withdraw the extensive public support that is still in place. No financial system can operate safely and effectively under conditions that are creating both moral hazard and the resource misallocations that come with it.

Financial vulnerabilities

Despite efforts to date, sovereign and financial sector risks continue to feed on each other. Short-term bank funding needs remain high, and the risks of interest rate surprises continue to be elevated. Elements of global finance are prolonging financial fragilities: these include not only low policy rates and expectations of continued official support, but also high expectations of returns on bank equity. Investors need to lower their expectations of such returns in accord with lower bank leverage.

At the same time, there are signs of a return to excessive risk-taking. While encouraging investors to take some risk was part of crisis management, there are signs that, in some areas, investors may be going too far again.

Moreover, several of the more vibrant economies of the world are exhibiting signs of an unsustainable credit boom. Credit levels and asset prices have moved outside their historical ranges, signalling the emergence of financial vulnerabilities. History may never actually repeat itself, but it does have a recurring tempo and tone. These developments portend yet another damaging financial cycle.

We should not underestimate the work required to complete financial reform. Basel III needs full and consistent implementation worldwide. We need to demand higher standards for systemically important financial institutions and credible mechanisms for their orderly resolution. The risks posed by shadow banking systems must be monitored and reduced. Improvements are needed in the statistics and processes for monitoring systemic risks, nationally and globally. Where credit booms and output are advancing strongly, authorities should consider imposing the Basel III countercyclical buffer to make banks more resilient. And throughout all this, we need to make the arrangements flexible enough to keep pace with the rapidly evolving financial system and the incentives to arbitrage restrictions away.

To sum up, early action is needed. The question is not whether to consolidate fiscal policy. It is not whether to normalise monetary policy. And it is not whether to accelerate structural adjustment. It is when and how each of these will happen.

Fiscal trajectories must be put on sustainable paths, monetary conditions should be normalised, and adjustments in the real economy and balance sheets should be accelerated. Early action will reduce vulnerabilities, lower repair costs and strengthen resistance to unexpected events. This is particularly true for the resilience of financial firms. Where possible, we should build strength now. Instead of taking the maximum time to reach the minimum standards, there is a good case for going faster and going further. Perhaps this time we will see a virtuous race to the top.

Policy frameworks

The more enduring lessons of the crisis, however, are not just about policy actions, but about policy frameworks. A lasting foundation for monetary and financial stability requires regulation and supervision with a strong macroprudential orientation; monetary policy that plays an active role in supporting financial stability; and fiscal policy that amasses the buffers required for effective crisis management.

These policies share two features. One rejects short-termism in favour of a long-term view. The other frees us from home bias in policymaking, allowing us to do more than just "keep our own house in order".

The first feature requires policymakers to keep an eye on the long-term horizon if they are to pre-empt the slow build-up of financial imbalances that can derail growth, cripple monetary policy and trigger sovereign crises.

The governance of macroprudential policy must encourage decision-makers to take a long view based on the principles of independence, clarity and accountability. This suggests that central banks should play a key role.

Fiscal policy also needs to take a long-term view. Governments, like financial firms, must build up buffers. Fiscal policy should aim at maintaining a very low level of debt during normal times so that governments are ready for the next, inevitable shocks. And policymakers should recognise that the level of revenue collected in the midst of a credit boom is unsustainable.

The second feature tells policymakers that, in an integrated global economy, keeping their own house in order is not enough. No individual economy is safe unless the global economy is safe. The fortunes of individual countries and the adequacy of their policies can be accurately assessed only as part of the global conditions that, collectively, they help to shape. For instance, if every central bank views commodity price movements as outside its control, then global monetary policy can be too loose. Just as each big private bank generates systemic effects that it must internalise, so too each country's policies create international spillovers that it must take on board.

Building a lasting foundation for low inflation, robust growth and a stable financial system requires early action in the face of uncertainty. It will require not only good ideas, hard work and difficult adjustments but also collaboration, cooperation and coordination both nationally and internationally. Developing a shared understanding of the challenges, and working towards common solutions, is what international cooperation is all about. As it has throughout its history, the BIS will continue to pursue this core mission.

Monetary policy in a world with macroprudential policy

Speech by Mr Jaime Caruana, General Manager of the BIS, at the SAARCFINANCE Governors' Symposium 2011, Kerala, 11 June 2011

http://www.bis.org/speeches/sp110610.htm

Introduction

Ladies and gentlemen, it is a privilege to be able to speak today to this distinguished group of Governors. As for my subject, I will focus on how monetary policy might need to adjust to the implementation of new macroprudential frameworks. To speak on this topic in India is almost presumptuous, given that the Reserve Bank of India is among those central banks, mainly Asian ones, that have successfully combined both monetary policy and macroprudential measures. So please take my remarks more as an invitation to a productive debate – one in which your contribution will be immensely valuable.

Much has already been done to ensure that financial supervision and regulation incorporate a systemic view of risks and to establish effective macroprudential frameworks. Basel III will increase the resilience of the banking system and will introduce a macroprudential overlay. Oversight bodies and macroprudential authorities will actively monitor systemic risk and act to constrain excessive leverage and maturity transformation. These are just two important elements that will have healthy long-lasting effects on the financial system and economy. As we know, however, more needs to be done to strengthen the financial system.

To be sure, a more stable, more resilient and less procyclical banking system will also improve the effectiveness of monetary policy transmission. But to understand the full impact on monetary policy, we need to understand how the new macroprudential frameworks will change the behaviour of the financial system and the real economy. These changes mean that monetary policy will have to adapt. How it adapts will depend on the way in which macroprudential and macro policies interact. This brings to the fore not only technical issues but also policy and governance considerations.

Perhaps it is too early for definite conclusions. Key reforms are still under way. For example, the Basel III liquidity ratios will improve liquidity management in banks, but may also affect capital markets and monetary policy transmission mechanisms. These effects will need to be analysed closely during the scheduled observation period.

Today, however, I would like to offer some tentative thoughts on some propositions and principles. My main focus will be the interplay between macroprudential frameworks and monetary policy.

1. Define macroprudential policy and its aims narrowly

In what follows, I will define macroprudential policy as the use of primarily prudential tools to limit system-wide financial risk, and so prevent disruption to key financial services and the economy. 1

Thus, macroprudential policy is defined by its aim (limiting system-wide financial risk), the scope of analysis (the financial system as a whole and its interactions with the real economy), a set of powers and instruments and their governance (prudential tools and those specifically assigned to macroprudential authorities).

This definition highlights a couple of points.

First, the set of macroprudential tools is not as large as sometimes believed. It may be tempting to consider as macroprudential any tool that can influence systemic risk and financial stability. But such a definition is too broad, as almost anything can have an impact on systemic risk. Monetary, fiscal and competition policies are cases in point. Moreover, a too-broad definition could argue for the adoption of measures whose primary aim has nothing to do with addressing systemic risk and whose effectiveness may be doubtful in that context. Capital controls could be one example.

Second, macroprudential policy should not be considered a tool for the management of aggregate demand. To safeguard macroeconomic stability, there is no substitute for sound monetary and fiscal policies. Unless these policies anchor domestic inflation and ensure the country's long-term solvency, the result will be serious macroeconomic instability. To be sure, the economy will be more stable if systemic risk is contained. But to rely on macroprudential policy as a first line of defence against inflation or other macroeconomic imbalances is bound to lead overall policy astray. Macroprudential policy can, at best, play a supportive role.

This leaves open the question of how narrowly the macroprudential objective should be defined. To answer that question, we first need to ask how a macroprudential framework should deal with financial cycles and procyclicality – a key source of financial instability. Recent experience has confirmed that financial crises often result from mutually reinforcing

feedback between the financial system and the real economy. Financial forces can drive and feed economic expansions. Unsustainable developments often show up in unusually rapid credit and asset price growth, together with burgeoning risk appetite. As external funding constraints are eased, they promote additional risk-taking and economic exuberance. During the boom, the financial system may miss the chance to build up sufficient capital and liquidity buffers while this could easily and cheaply be done. As a result, it cannot withstand the subsequent bust. When the unsustainable can no longer be sustained, a financial crisis breaks out. This can be very costly, both economically and socially.

From this perspective, one could single out two possible objectives for a macroprudential framework. A narrow aim would be to increase the resilience of the financial system. A broader, more ambitious one would seek to constrain the upswing of the financial cycle itself. To achieve the narrow aim, all we need to do is to build up buffers during the boom so that they can be used as risks materialise during the bust. For the broader objective, the build-up of the buffers should itself act as an effective speed-limit, restraining the credit and asset price boom. The narrow objective would accept that financial cycles and imbalances could be material despite the best efforts of policymakers. At the same time, it would recognise that, by cushioning the bust, the macroprudential framework would limit the downside of the financial cycle. But it would remain more agnostic about its restraining impact during the boom.

My view is that we should be modest in our expectations. The evidence strongly indicates that macroprudential tools strengthen the banking system's resilience against the bust. At the same time, it suggests that their effectiveness in restraining the boom is more mixed and varies across instruments and financial structures. For example, some countries report that loan-to-value ratios and special provisioning requirements have helped to contain asset price inflation and credit growth in the real estate sector. Several years ago, the Reserve Bank of India raised the Basel weights for household loans, as well as mandating higher loan loss reserves, in the face of rapid household credit growth. Household loans subsequently slowed, even as business loans accelerated; this suggests prima facie that the measures were effective. But it is less clear how far this experience might apply to other financial systems with different capital markets and banking structures. In addition, capital buffers may need to be raised substantially before they can restrain credit expansion: by its nature, capital is ample and cheap in good times.

I draw two conclusions from this. First, a macroprudential strategy is likely to have to rely on a range of reinforcing policies and instruments in order to effectively and sustainably constrain credit growth and asset price booms. Second, given the uncertainties involved at this stage, it would be wise to avoid overly ambitious objectives. We should design the frameworks to provide effective speed limits. But we should not go so far as to judge on this basis whether a macroprudential framework has succeeded or failed. We should be modest in our expectations about this wider objective.

2. Macroprudential policy is not enough to ensure financial stability: other policies have to play their part

Can we rely exclusively on a macroprudential framework to ensure the desired degree of financial stability? I would argue that the answer is "no". At a minimum, both fiscal and monetary policies need to play a more active role than they have in the past.

Let me just say a few words about fiscal policy, as it is not the main subject of my presentation. The plight of the euro area is a telling example of how sovereign solvency is the prerequisite for financial stability. Emerging market countries know this all too well. History also indicates that, during credit and asset price booms, fiscal positions look deceptively rosy. The conclusion is simple. For fiscal policy, we need to apply the same principles that apply to a macroprudential framework: namely, build up buffers in good times so that they can be drawn down in bad times. This means running prudent budget surpluses in good times. And it means not being fooled by the one-off revenues that private sector financial imbalances generate as they build up.

Views about the appropriate role of monetary policy have evolved in the light of the financial crisis. Pre-crisis, the relationship between financial stability and monetary stability was typically regarded as quite simple, at least in most advanced economies. At the cost of oversimplifying, two propositions summarised this view. First, price stability is sufficient for macroeconomic stability. To put it less provocatively, price stability, together with developed and efficient financial markets, would either prevent financial crises or, if they did happen, keep them to manageable proportions. Second, monetary stability should be achieved by mandating an independent central bank with a narrowly specified inflation target. Not surprisingly, standard macro models treated this view as axiomatic and often failed even to mention banks.

The crisis showed that this paradigm is too narrow.

First, it reminded us that financial imbalances can build up even without inflation. Inflation was subdued in the mid-2000s. Yet, at the same time, unsustainable asset price booms developed in many countries, setting the stage for disaster. Evidently, aiming to maintain price stability over a typical two-year policy horizon is not a sufficient safeguard against financial and macroeconomic instability.

Second, the crisis hammered home the message that the correction of financial imbalances can put a huge strain on monetary policy. During the crisis, deflationary pressures and plummeting output induced many policymakers to lower rates until they effectively hit the zero lower bound. Central banks also engaged in aggressive balance sheet policies. As a by-product, these policies increased central banks' financial risks and put their budgetary independence into question. Thus, the crisis showed that a strategy that limits itself to post-bust cleaning up carries huge costs and can cripple monetary policy effectiveness.

More generally, the maintenance of financial stability is too big a burden to rest exclusively on prudential policies, macroprudential included. First, as already noted, it is difficult to constrain the build-up of financial imbalances even with a combination of policies. And the results are uncertain. But the correction of financial imbalances can have serious macroeconomic costs even if it does not result in a full-blown financial crisis. For example, after the end of Germany's re-unification boom, there were no outright bank failures. Even so, the financial system experienced severe strains, which sapped the economy's strength. Second, the effectiveness of monetary policy in constraining credit and asset price booms is hardly in doubt. It is hard to imagine how monetary policy could influence economic activity without affecting credit conditions and asset prices: these are key elements of the transmission mechanism. Finally, monetary policy can help to address regulatory arbitrage, as it sets the universal price of leverage in a given currency.

Will macroprudential policy tend to lead to an amplification or a dampening of policy interest rate cycles? The answer is not straightforward. On the one hand, the troughs might become less extreme, as macroprudential policy should reduce the likelihood of financial crises and their disinflationary consequences. Likewise, interest rate peaks might also come down, to the extent that macroprudential policy succeeds in restraining credit and asset price booms. On the other hand, the need for monetary policy to contribute to financial stability by leaning against the build-up of financial imbalances points to a greater range of interest rate increases during expansions that are marked by such imbalances.

All told, interest rates could move more symmetrically over the financial cycle. They would rise by more during upswings and fall by less during downswings. By implication, there would also be a reduced risk of hitting the zero lower bound and of having to resort to balance sheet policies.

3. Conflicts between macroprudential and monetary policy are likely to be rare

A concern sometimes raised is that macroprudential frameworks could lead to conflicts between monetary and macroprudential actions. My sense is that such concerns are overdone. It seems likely that, in most circumstances, macroprudential policy and monetary policy will be complementary, tending to move in the same rather than opposite directions.

There are two reasons why these policies should complement each other:

First, the financial cycles that matter for prudential policy have a much lower frequency than business cycles. Most business cycles do not involve financial imbalances or crises. In other words, financial crises happen much less frequently than recessions. Since the worldwide liberalisation of financial markets in the 1980s, financial crises have occurred only about once every 20–25 years in any given country. The literature also indicates that financial cycles associated with serious financial distress tend to be considerably longer than typical business cycles.

This suggests that, most of the time, monetary policymakers can treat macroprudential policy developments as a relatively slow-moving background. It also means, of course, that the pursuit of price stability over horizons of just two years or so is no longer fully appropriate. Rather, monetary policymakers will also need to keep an eye on longer-term trends, if they are to take into account the gradual build-up and unwinding of financial imbalances and their economic and inflationary effects.

This longer horizon dissipates some of the possible tensions between monetary policy and macroprudential decisions. Imagine a situation in which a leveraged asset price boom occurs when inflationary pressures are falling. The apparent tension between a desire to cut interest rates and to tighten macroprudential standards disappears once a longer-run perspective on price stability is taken. Since financial crises can generate huge disinflationary pressure, a tightening of monetary policy will promote longer-run price stability.

As an aside, this point suggests that, if monetary policy is mobilised at times to prevent financial instability, no change in formal objectives or mandates will necessarily be required. More important is the analytical lens through which policymakers see the workings of the economy. Indeed, there may be circumstances in which the adoption of an explicit financial stability mandate could be counterproductive. This would be the case, for instance, if it resulted in stronger political economy pressures to keep interest rates low in order to avoid financial stress at times of rising inflation.

Second, we may need to think in terms of a policy hierarchy. A good example is the potential set of responses to strong capital inflows. Capital inflows into emerging market economies can put strong upward pressure on domestic inflation, as well as on credit and asset price growth. In this situation, the top priority is to apply macroeconomic policies – including monetary, fiscal and exchange rate measures – to safeguard domestic financial stability. The appropriate role of macroprudential policy is to curb excessive risk-taking by the domestic financial system. Such restraint might well help to cool aggregate demand and, as such, should to be taken into account by monetary policy. But the use of macroprudential policy should not be used as an excuse to postpone or reduce the inevitable tightening of monetary policy. As for capital controls, these are measures of last resort and are better viewed as a safety valve for extraordinary circumstances. The longer such controls are left in place, the greater the chance of adverse economic side-effects. In this light, India's higher limits on non-resident investment in rupee bonds represent a welcome development. Such investment can help to deepen capital markets.

4. Complementary policy areas still call for policy coordination

Although conflicts between macroprudential and monetary policy are likely to be rare in practice, there will still be a need for mutual consistency and coordination. The close relationship between macroprudential and monetary policy makes that inevitable. More generally, financial stability is a shared responsibility that requires clear cooperation arrangements.

Consistency and coordination could be achieved in a number of ways. At one end of the spectrum, a single institution could take responsibility for all coordination. It would, in fact, determine both policies at all times, with the aim of promoting both macroeconomic and financial stability. Concretely, a single committee or institution could be charged with deciding on the mix of instruments. A central bank would be an obvious candidate for this role. Short of this solution, various other possibilities can be envisaged. For example, policymakers in one area could have veto rights for the other policy; or macroprudential and monetary policy committees could have overlapping memberships. Alternatively, there could be requirements to consult; requirements to notify the other authority before taking decisions; requirements to provide information and advice to the other party; and "best efforts" coordination governed by memoranda of understanding or similar instruments.

The key trade-offs are well known. On the one hand, they involve maximising the credibility and accountability benefits of a narrow policy focus. And, on the other hand, it is a matter of exploiting the technical efficiency benefits yielded by coordination.

This could be done in various ways. For example, multiple objectives could be explicitly ranked. The timing of macroprudential policy reviews could differ from those of monetary policy, which themselves differ from the calendar of fiscal policy actions. Interestingly, some recently established financial stability committees plan to meet quite frequently – perhaps on a quarterly basis. On the one hand, regular review meetings help to keep financial stability in the public eye and could guard against biases towards inaction. On the other hand, this frequency seems quite high given that financial cycles build up so slowly; it might even risk creating the impression that macroprudential interventions will in practice be quite frequent.

5. We need proper governance arrangements: independence, clarity and accountability.

Regardless of the specific type of cooperation mechanisms put in place, financial stability requires governance arrangements that incorporate the principles of independence, clarity and accountability.

Independence from political cycles is needed for macroprudential policy no less than for monetary policy. A common problem for both policies is the need to intervene during the upswing, when things are going well and the public might be sceptical that problems loom down the road. Operational independence will be needed to shield unpopular policy decisions. Strong accountability and clarity of communication will bolster public support for the independence of macroprudential policy and hence its credibility and effectiveness.

Clarity about mandates, responsibilities and powers is important for the effectiveness and timeliness of actions and for managing the difficult trade-offs. Sufficient powers imply control over relevant instruments and appropriate safeguards. For example, access to micro supervisory data is important. At the same time, our limited technical knowledge means that macroprudential frameworks need room to adapt and grow with experience. Very specific and inflexible mandates raise the risk that the specified targets are, or quickly become, poorly matched to the economy's and financial system's needs. As a result, the policymaker's ability to respond to unexpected circumstances could be severely constrained.

Accountability is critical. That said, since financial stability objectives are difficult to quantify or define precisely, accountability is harder to achieve than, say, for price stability objectives in monetary policy. A clear and transparently communicated strategy that sets out the central bank's intentions can serve as the basis for accountability.

Regardless of the specific governance and cooperation arrangements, the emerging reality is that central banks have a key role to play. This role requires mandates and governance structures that are consistent with their primary monetary policy function. In some cases, central banks' duties and powers to promote financial stability are being enhanced. More active financial stability roles will raise issues of reputational risk that central banks will need to manage carefully, especially if their views on specific decisions are not shared by other agencies involved in the process.

Central banks will also face additional challenges. They will face an added burden to be very clear about what policy actions are being taken and for what reason. They will need to be careful not to undermine price stability mandates and hard-won credibility. And they will need to preserve their operational autonomy, including financial independence. In turn, this requires control over their balance sheet and ex-ante clear mechanisms to transfer losses to the Treasury. A forthcoming Central Bank Governance Forum report describes the current range of practice across central banks and analyses the issues posed by various choices.

Conclusion

To conclude, these are early days in our experience with new macroprudential frameworks. The consequences of active macroprudential policy for the conduct of monetary policy will be material, but still need to be understood in light of experience. The Asian experience, your experience, will be extremely helpful in refining macroprudential frameworks and managing expectations as to what they can deliver.

Introductory remarks – Financial crises: the role of deposit insurance

Introductory remarks by Mr Hervé Hannoun, Deputy General Manager of the BIS, at the IAIS 2011 Research Conference "Financial crises: the role of deposit insurance", Basel, 8 June 2011

http://www.bis.org/speeches/sp110609.htm

The vital contribution of deposit insurance to financial stability was one of many lessons from the financial crisis. Even though there is a great variety of deposit insurance arrangements worldwide, all types provide depositors with clarity, reassurance and confidence. This means, first, that deposit insurance forms an integral part of the global financial stability framework. Second, that deposit insurers support a "back to basics" approach to banking supervision. In this respect, strong capital buffers focusing on common equity and a binding Pillar 1 leverage ratio are two central elements of Basel III. And, third, that deposit insurers are key actors in bank crisis management and in bank resolution. In this regard, a key lesson from the crisis is the need for further progress in the design of a cross-border bank resolution framework that can cope with the potential failure of systemically important financial institutions (SIFIs). However, in the current absence of a global resolution framework, it is critical to reduce the default probability of SIFIs by increasing their loss absorption capacity through systemic capital surcharges.