

**Bank for International Settlements
Basel, Switzerland**

Profile

June 2000

Introduction to the Bank for International Settlements

The Bank for International Settlements (BIS) is an international organisation which fosters international monetary and financial cooperation and serves as a bank for central banks.

The BIS fulfils this mandate by acting as:

- a forum to promote discussion and facilitate decision-making processes among central banks and within the international financial community;
- a prime counterparty for central banks in their financial transactions;
- a centre for economic and monetary research;
- agent or trustee in connection with international financial operations.

The BIS's statutory organs are the General Meeting and the Board of Directors. Forty-nine central banks have rights of voting and representation at General Meetings. The Board of Directors, currently chaired by Urban Bäckström, Governor of Sveriges Riksbank, has 17 members, 11 of whom are central bank governors. The General Manager of the BIS is Andrew Crockett and the Assistant General Manager is André Icard. The Heads of the three main departments are Gunter D Baer (General Secretariat), William R White (Monetary and Economic Department) and Robert D Sleeper (Banking Department). The General Counsel is Mario Giovanoli.

Forum for international monetary
and financial cooperation

Meeting place for central bankers

Governors and officials of shareholding central banks regularly meet at the offices of the BIS in Basel and, at times, in the Hong Kong Special Administrative Region of the People's Republic of China, where a Representative Office for Asia and the Pacific was opened in July 1998. Often they are joined by representatives of other central banks. The most important event is the Annual General Meeting, held each year in June. In 1999, 92 central banks participated, 65 at governor level. Thirteen international institutions also attended.

Promotion of international monetary and financial stability

The stability of the international monetary and financial systems has long been a major theme of central bank meetings at the BIS. Historically, the Bank played an important role in both the creation

and operation of the various intra-European payments arrangements, beginning in 1947. Between 1960 and 1971, focus shifted to initiatives undertaken by central banks in response to currency crises.

Since 1962 most of the work undertaken in the area of international monetary and financial cooperation has emanated from the **Group of Ten** (G10). This grouping of countries originated when 10 member countries of the International Monetary Fund (IMF) together with Switzerland, which was not a member of the IMF at that time, agreed to make resources available to the IMF outside their Fund quotas under the General Arrangements to Borrow (GAB). From 1963, the governors of G10 central banks have met on the occasion of the regular BIS meetings. Moreover, through their contacts at the BIS, between 1961 and 1968 central banks coordinated their interventions in the gold markets through the so-called Gold Pool. Similarly, the network of swap arrangements put in place between the US monetary authorities and a number of central banks to reinforce confidence in the US dollar had its origins in 1962 within the framework of the BIS.

The G10 meetings have become the pivotal forum in which much wider activities have been set in motion by the G10 central banks in the pursuit of international financial stability – for example in the fields of monetary and financial market monitoring and analysis, banking supervision and payment and settlement systems.

As early as 1971, interest among central banks about the evolution of the eurocurrency markets and the resulting systemic implications led to the establishment of a standing committee of the G10 central banks which continues to meet regularly in Basel. This ***Euro-currency Standing Committee*** considered various issues, such as the implications of international debt problems, the evolution of financial market structures, the macroeconomic and prudential implications of derivative instruments, and the collection of new statistical information. Renamed the ***Committee on the Global Financial System*** in February 1999, it now focuses on short-term monitoring of global financial system conditions, longer-term analysis of the functioning of financial markets, and the formulation of policy recommendations aimed at improving market functioning.

In sessions held at the time of the regular meetings at the BIS, the ***Committee of Experts on Gold and Foreign Exchange*** monitors foreign exchange market activities and identifies their implications for central bank policies and operating procedures, occasionally addressing longer-term structural issues.

In December 1974, the G10 governors set up what is now known as the ***Basel Committee on Banking Supervision*** to improve collaboration between bank supervisors following the experiences earlier that year in connection with Bankhaus Herstatt in Germany and Franklin National Bank in New York. The secretariat is provided by the BIS. The Committee is a forum for discussion on the handling of specific supervisory problems. It coordinates the sharing of supervisory responsibilities among national authorities in respect of banks' foreign establishments with the aim of ensuring effective supervision of banks' activities worldwide. A paper on this topic – the Basel Concordat – was issued in 1983, and in 1992 the Committee strengthened these arrangements by agreeing on

minimum standards for the supervision of international banking groups and their cross-border establishments. The Committee also seeks to enhance standards of supervision, notably in relation to solvency, so as to help strengthen the soundness and stability of international banking. Over the years it has issued a wide range of papers to guide bank supervisors. The best known of these is the agreement reached in 1988 to achieve international convergence in the measurement of the adequacy of banks' capital and to establish minimum capital standards – the Basel Capital Accord. The Committee is currently reviewing its capital adequacy framework. With the active contribution of emerging market supervisors, the Committee has issued the Core Principles for Effective Banking Supervision, a comprehensive blueprint for an effective supervisory system.

The BIS hosts meetings of and provides the secretariat for the ***Committee on Payment and Settlement Systems*** (CPSS) and its various working parties. This committee focuses on the efficiency and stability of domestic and cross-border payment and settlement systems. It has addressed issues relating to large-value funds transfer systems, foreign exchange settlement risk, securities settlement arrangements and retail payment systems. It has increasingly involved non-G10 central banks in its recent work, in particular on core principles for the design and operation of payment systems. The CPSS, like other BIS-based committees, works closely, where needed, with other international organisations such as the IMF, World Bank and IOSCO.

It should be noted that the BIS is also – and increasingly – a forum for meetings of governors and other officials from those central banks throughout the world which make a substantial contribution to international monetary cooperation. Moreover, the BIS contributes actively to work on reforming the international financial architecture. The importance of this work was first given prominence in 1995 at the Halifax summit of heads of state and government of the G7 countries. Ultimately this led to the establishment of the ***Financial Stability Forum*** in 1999. The Forum promotes information exchange and coordination

among national authorities, international institutions and international regulatory or experts' groupings with responsibilities for international financial stability. The BIS and other international institutions and groupings participate in the meetings of the Forum and jointly provide secretariat support through the BIS in Basel. Andrew Crockett, General Manager of the BIS, currently chairs the Forum in a personal capacity.

At the end of 1998, the BIS, in a joint initiative with the Basel Committee on Banking Supervision, established the *Financial Stability Institute*. This responded to the need to strengthen financial systems worldwide through assistance in implementing sound policies bearing on financial stability, and to improve the effectiveness with which training is planned, coordinated and delivered. Its early focus has been to promote better and more independent banking supervision based on the implementation of core principles for financial sector supervision. Gradually this will be expanded to payment systems and the insurance sector.

International Association of Insurance Supervisors

Since January 1998 the BIS has hosted the Secretariat of the *International Association of Insurance Supervisors* (IAIS). The IAIS, founded in 1994, aims to ensure improved supervision of the insurance industry, develop practical standards for supervision of insurance, provide mutual assistance and exchange information to promote the development of domestic insurance markets. So far, the IAIS has issued a number of international insurance supervisory principles, standards and guidance papers. These include Insurance Core Principles, the Insurance Concordat, Principles for the Conduct of Insurance Business, Guidance on Insurance Regulation and Supervision for Emerging Market Economies, a model Memorandum of Understanding and Supervisory Standards on Licensing, On-Site Inspections, Derivatives and Asset Management. The secretariat is independent of the BIS but has its offices at the BIS, which provides support in certain technical and administrative areas. The proximity to the Basel Committee on Banking Supervision and to other secretariats at the BIS

focusing on issues of financial stability facilitates the cooperation and exchange of information which are becoming increasingly necessary as differences between financial institutions and sectors diminish, calling for joint supervisory approaches.

Other areas of cooperation between the BIS and central banks

Central bank cooperation has intensified in other parts of the world, either within existing regional political associations or within specialised central banking organisations, notably CEMLA (Centro de Estudios Monetarios Latinoamericanos), EMEAP (Executive Meeting of East Asian and Pacific Central Banks), SEANZA (Central Banks of South East Asia, New Zealand and Australia), SEACEN (South East Asian Central Banks), SAARC (South Asian Association for Regional Cooperation), the AMF (Arab Monetary Fund), the GCC (Gulf Cooperation Council) and SADC (Southern African Development Community). The BIS contributes to the activities of most such groupings, for example by conducting joint seminars.

The BIS assists the central banks of over 20 industrialised countries in the coordination of technical assistance and training for the central banks of central and eastern Europe, the Commonwealth of Independent States and some Asian economies in transition. This coordination is supported by a database and by regular meetings bringing together officials of the donor and recipient central banks concerned as well as the IMF and other international organisations. The BIS also participates with the EBRD, IBRD, IMF, OECD and WTO in a training facility - the *Joint Vienna Institute* - set up in September 1992 to offer courses chiefly for officials of central banks and economic and financial authorities of the countries whose economies were formerly subject to central planning.

The BIS regularly organises meetings of central bank economists and other experts on a variety of themes, such as economic and monetary issues of interest to central banks, including, for example, monetary policy techniques and operating procedures. Meetings of central bank experts also take place on more specialised subjects, such as infor-

mation technology, security, internal management procedures and specific legal issues of interest to central banks. In recent years, participation has been increasingly extended to representatives from emerging markets, who also attend special meetings at the BIS on topics of particular interest to them.

Economic and monetary cooperation in Europe

Until end-1993 the BIS hosted various central bank committees which provided the institutional framework for monetary cooperation in the European Community. It then hosted the European Monetary Institute until it was transferred to Frankfurt, where it later became the European Central Bank.

Centre for monetary and economic research

In addition to the specific tasks performed by the BIS and the various committees and groups of experts, as described above, the Monetary and Economic Department conducts research, particularly into monetary and financial questions, to support the activities of various groups meeting at the BIS. It also runs an intra-central bank statistical database to which contributing central banks have automated access.

Research tends to focus on questions of direct interest to central banks, and is thus of an applied nature. The BIS's economic research and analysis are published in its various economic and working papers as well as in academic journals and conference volumes of central banks and international agencies. Much of the work undertaken serves, directly or indirectly, as an important input to the wide-ranging review of international economic and financial developments contained in the BIS's Annual Report. The BIS also publishes its own research, along with papers submitted by central banks, in its conference and policy papers.

At the request of central banks, the BIS compiles and analyses data on developments in international banking and securities markets. The international

banking statistics, currently the most extensive part of the data compiled, shed light on the growing international business of banks and on one important component of countries' international indebtedness. The data have been adapted for use in the compilation of more accurate national balance of payments statistics. In addition, the BIS has been mandated to build up databases on activity in international debt securities markets, as well as in exchange-traded and over-the-counter (OTC) derivatives. Finally, the BIS maintains a database on the results of the comprehensive triennial *Central bank survey of foreign exchange and derivatives market activity*.

Most of the data are published by the BIS in its *Quarterly Review*, which also provides a detailed commentary on market developments. Data on consolidated international bank lending and on global OTC derivatives market activity are released separately. The BIS contributes to a joint BIS-IMF-OECD-World Bank publication on the internet of statistics on external debt. The triennial *Central bank survey of foreign exchange and derivatives market activity* is issued as a separate report.

Bank for central banks

Balance sheet

At 31 March 2000 the BIS's balance sheet total stood at 75 billion gold francs, with the BIS's published own funds (capital and reserves) at 3.2 billion gold francs. Expressed in US dollars, with gold at the prevailing market price, these figures correspond to US\$ 147 billion and US\$ 6.7 billion respectively.

Banking operations

The Banking Department carries out a wide range of banking operations to assist central banks in the management of their external reserves. A guiding principle observed by the BIS in its banking operations is laid down in Article 19 of its Statutes, which states that: "The operations of the Bank shall be in conformity with the monetary policy of the central

banks of the countries concerned." The Bank is not permitted to make advances to governments or open current accounts in their name.

At present, around 120 central banks and international financial institutions from all over the world place deposits with the BIS. The total of currency deposits placed with the BIS amounted to about US\$ 128 billion at the end of March 2000, representing around 7% of world foreign exchange reserves. Because a high proportion of the reserve assets which central banks hold in the form of deposits with the BIS needs to be available to them at rather short notice, the BIS's employment of these resources focuses upon maintaining a high degree of liquidity.

Most of these funds are placed in the market, mainly in the form of investments with top-quality commercial banks and purchases of short-term government securities. While these operations today constitute the bulk of the BIS's business, it also conducts a range of foreign exchange and gold operations on behalf of its customers.

Investment services for central banks

In recent years the BIS has actively sought to develop its investment services, responding in particular to the concern of central banks to improve the return on their foreign assets. A range of BIS financial products enables central banks to manage their liquidity more efficiently. To help them with longer-term reserve management, the BIS offers investment instruments of up to five years as well as tailor-made portfolio management schemes.

Credit facilities

In addition to placing funds in the international markets, the BIS sometimes makes short-term advances to central banks. These usually take the form of secured credits against gold, other collateral or currency deposits held with the BIS, but on occasions they may be granted on an unsecured basis, for example in the form of a standby credit on which a central bank can draw at very short notice.

The BIS has at various times since the early 1980s provided financial support to countries with the backing (in the form of guarantees) of a group of leading central banks. Multilateral assistance of this kind has usually prefinanced disbursements of credits granted by international institutions such as the IMF or the World Bank. It has on occasion taken the form of a contribution to a wider financial support programme, as with the US\$ 13.28 billion BIS Credit Facility put together in late 1998 for Brazil and repaid in full in April 2000.

Risk control

The Bank's Risk Control function is separate from the Banking Department and reports through the Assistant General Manager to the General Manager. It consists of three units – Internal Audit, Credit Risk Control and Treasury Risk Control. Market and credit risk are measured and managed under an integrated economic capital framework employing state of the art methodology. Asset quality is rigorously and constantly monitored.

Agent and trustee

The BIS assists in a number of fields as agent or trustee in the execution of international financial agreements.

International loan agreements

In the past, the BIS performed various functions as trustee, fiscal agent or depository with regard to a number of international loan agreements, such as the Dawes and Young loans issued by the German government in 1924 and 1930 respectively, and the secured loans which were issued by the European Coal and Steel Community from 1952. Following the reunification of Germany, a new series of funding bonds was issued in 1990 by the Federal Republic of Germany covering arrears of interest under the Dawes and Young loans.

Functions as collateral agent

In April 1994 the BIS assumed new functions in connection with the rescheduling of Brazilian external debt which had been agreed by Brazil in November 1993. In accordance with two Collateral Pledge Agreements, the BIS acts in the capacity of collateral agent to hold and invest collateral for the benefit of the holders of certain US dollar denominated bonds issued by Brazil under the rescheduling arrangements and maturing in either 15 or 30 years.

The BIS has undertaken similar functions for Peru since March 1997 and Côte d'Ivoire since March 1998 in connection with the external debt rescheduling arrangements agreed in November 1996 and May 1997 respectively.

Historical background

The founding of the BIS

The need to create an international organisation such as the BIS had been perceived from the beginning of the century. However, it was not until the adoption of the Young Plan under the Hague Agreements of 20 January 1930, whose main purpose was to facilitate German reparations after World War I, that the necessary steps were taken.

The intergovernmental agreements concluded at the Hague Conference in January 1930 provided for the founding of the BIS by a group of six central banks and a financial institution of the USA and for the granting of a Constituent Charter to the BIS by Switzerland, the country in which the BIS was to be established. The new international organisation was destined not only to perform the functions of trustee in the execution of the Young Plan, but also to promote central bank cooperation and to provide additional facilities for international financial operations.

The BIS commenced its activities in Basel on 17 May 1930 and is thus the world's oldest international financial organisation and meeting place.

Legal status and capital

In common with many of its founding central banks in 1930, the BIS was given the legal structure of a limited company with an issued share capital. The Hague Agreements nevertheless established the BIS as an international organisation governed by international law with the privileges and immunities necessary for the performance of its functions. The international legal personality of the BIS and the privileges and immunities which it has enjoyed in Switzerland since its foundation were confirmed in the Headquarters Agreement concluded by the BIS with the Swiss Federal Council on 10 February 1987. The BIS has a legal status comparable to that accorded to the many other international organisations established in Switzerland.

The authorised share capital is 1,500 million gold francs, divided into 600,000 shares of equal nominal value (2,500 gold francs per share) of which 529,165 shares are currently issued. They are paid up to the extent of 25% of their nominal value (625 gold francs per share). The amount of the paid-up capital appearing in the balance sheet at 31 March 2000 thus stands at 331 million gold francs.

The gold franc of the BIS has a gold weight of just over 0.29 grams of fine gold, which is identical with the gold parity of the Swiss franc from the foundation of the BIS in 1930 until September 1936, when the Swiss franc's gold parity was suspended. The BIS employs the gold franc solely as a unit of account for balance sheet purposes, with assets and liabilities in US dollars being converted into gold francs at the fixed rate of US\$ 208 per ounce of fine gold (equivalent to 1 gold franc = US\$ 1.94) and all other items in currencies being converted into gold francs on the basis of market rates against the US dollar.

When the BIS's initial capital was issued, the subscribing institutions were given the option of taking up the whole of their respective national issues of shares or of arranging for those shares to be subscribed by the public. As a result, part of the Belgian and French issues and the whole of the US issue are not held by the institutions to which they were originally allocated. In all, some 86% of the BIS's issued share capital is registered in the names of central banks, the remaining 14% being held by private shareholders. While all shares carry equal rights with respect to the annual dividend, all rights of voting and representation are reserved for the central bank of the country in which the relevant national issue of shares was initially subscribed. Private shareholders have no right to attend or vote at General Meetings of the BIS.

At 31 March 2000, 49 central banks had rights of voting and representation at General Meetings. These included all the G10 central banks – those of Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States – the European Central Bank, which became a shareholder in December 1999, and the central banks of Argentina, Australia, Austria, Brazil, Bulgaria, China, the Czech Republic, Denmark, Estonia, Finland, Greece, Hong Kong SAR, Hungary, Iceland, India, Ireland, Korea, Latvia, Lithuania, Malaysia, Mexico, Norway, Poland, Portugal, Romania, Russia, Saudi Arabia, Singapore, Slovakia, South Africa, Spain, Thailand and Turkey, together with the Central Bank of Bosnia and Herzegovina, the Croatian National Bank, the National Bank of the Republic of Macedonia and the Bank of Slovenia, which have been issued shares of the BIS pending a comprehensive settlement of all outstanding questions in connection with the legal status of the suspended Yugoslav issue of the BIS's capital.

Administration

The BIS has two statutory organs: the General Meeting and the Board of Directors.

The General Meeting is held annually, usually on the second Monday in June. An Extraordinary General Meeting may be called by the Board of Directors at any time. The last occasion was in November 1999.

The Board of Directors comprises the governors of the central banks of Belgium, France, Germany, Italy and the United Kingdom and the Chairman of the Board of Governors of the US Federal Reserve System as ex officio members, each of whom appoints another member of the same nationality. The Statutes also provide for the election to the Board of not more than nine governors of other member central banks. The governors of the central banks of Canada, Japan, the Netherlands, Sweden and Switzerland are currently elected members of the Board.

The Board of Directors elects a Chairman from among its members and appoints the President of the BIS. Since 1948 the two offices have been vested in one person.

The Board of Directors appoints the General Manager and the other members of the Management. The staff of the BIS (including temporary staff) now numbers 500 and is drawn from 35 countries. ■