



BANK FOR INTERNATIONAL SETTLEMENTS

Profile

June 2001



Introduction

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 centre for economic and monetary research;
- a prime counterparty for central banks in their financial transactions;
- agent or trustee in connection with international financial operations.

This *Profile* describes the BIS, its work, and that of the various groups operating through the BIS.

Organisation and governance

The Bank for International Settlements commenced its activities in Basel on 17 May 1930 and is thus the world's oldest international financial organisation.

The BIS's head office is in Basel, Switzerland and its Representative Office for Asia and the Pacific is in the Hong Kong Special Administrative Region of the People's Republic of China. The BIS announced in March 2001 its intention to establish a Representative Office for the Americas in Mexico City.

The General Manager of the BIS is Andrew Crockett and the Deputy 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. The staff of the BIS (including temporary staff) numbers 506 and is drawn from 37 countries.

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

The General Meeting

The General Meeting is held annually, within four months of 31 March, the end of the BIS's financial year.

Fifty institutions have rights of voting and representation at General Meetings. These are the central banks or monetary authorities of Argentina, Australia, Austria, Belgium, Bosnia and Herzegovina, Brazil, Bulgaria, Canada, China, Croatia, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hong Kong SAR, Hungary, Iceland, India, Ireland, Italy, Japan, Korea, Latvia, Lithuania, the Republic of Macedonia, Malaysia, Mexico, the Netherlands, Norway, Poland, Portugal, Romania, Russia, Saudi Arabia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom, the United States of America and Yugoslavia, as well as the European Central Bank.

The Board of Directors

The Board of Directors, currently chaired by Urban Bäckström, Governor of Sveriges Riksbank, has 17 members. It 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, the Deputy General Manager and the three Heads of Department. The BIS Management makes other appointments on the basis of merit.

Legal status of the BIS

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 character 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.

A Host Country Agreement between the BIS and the Government of the People's Republic of China sets out the specific status of the Representative Office for Asia and the Pacific.

Disputes arising over the interpretation or application of the treaties or Statutes of the BIS are referred to the Arbitral Tribunal provided for by the Hague Agreements. The governments of Belgium, France, Germany, Italy and the United Kingdom appoint the five members of the Tribunal.

Disputes arising in matters of employment relations between the Bank and its officials or former officials, or persons claiming through them, are referred by the Bank's Headquarters Agreement and by the Host Country Agreement to the Administrative Tribunal of the Bank.

The gold franc

The BIS employs the gold franc as a unit of account for balance sheet purposes. The gold franc has a gold weight of just over 0.29 grams of fine gold, which is identical to 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. Assets and liabilities in US dollars are converted into gold francs at the fixed rate of US\$ 208 per ounce of fine gold (equivalent to 1 gold franc = US\$ 1.94). All other items in currencies are converted into gold francs on the basis of their market rates against the US dollar.

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 529,125 shares are issued. They are paid up to the extent of 25% of their nominal value (625 gold francs per share).

When the BIS's initial capital was issued, part of the Belgian and French issues and the whole of the American issue were sold to the public.

Approximately 14% of BIS shares remained in private hands at the end of 2000. After an Extraordinary General Meeting on 8 January 2001 amended the Statutes to restrict ownership of BIS shares exclusively to central banks, shares held by private shareholders were withdrawn against payment of compensation.

Balance sheet

At 31 March 2001 the BIS's balance sheet total stood at 76 billion gold francs, with the BIS's published own funds (capital and reserves) at 3.5 billion gold francs. Expressed in US dollars, with gold at the prevailing market price, these figures corresponded to US\$ 149 billion and US\$7.1 billion respectively.

Forum for international monetary and financial cooperation

Governors and officials of shareholding central banks meet regularly at the offices of the BIS in Basel and, on occasion, at the Representative Office in Hong Kong SAR. Often they are joined by representatives of other central banks. The largest such gathering is the Annual General Meeting. In 2001, 107 central banks attended the Annual General Meeting, 93 at Governor level. Sixteen international institutions also attended.

The main events take place at the time of the bimonthly meetings of the BIS Board. All shareholding central bank Governors and senior officials are invited. These meetings facilitate central bank cooperation in areas such as the monitoring of foreign exchange market activities, the surveillance and analysis of financial market developments, and the oversight of payment and settlement systems.

Meetings fall into three broad categories:

- meetings of the Board of Directors;
- meetings of the Group of Ten central bank Governors and their subcommittees; and
- meetings of central bank Governors.

An example of the last category is the bimonthly Global Economy Meeting, which brings together central bank Governors of major emerging market economies and of the G10 countries.

In March 2001, the BIS established the Asian Consultative Council, comprising the Governors of the BIS member central banks in the Asia-



Pacific region. Its purpose is to provide a vehicle for communication between the Asian and Pacific members of the BIS and the Board and Management on matters of interest and concern to the central banking community in the region. The secretariat function for the ACC is provided by the BIS Representative Office for Asia and Pacific in Hong Kong SAR. The new body will meet at least once a year, with additional meetings at the initiative of members of the ACC.

The ACC is chaired by Ian Macfarlane, Governor of the Reserve Bank of Australia.

Group of Ten (G10) central bank Governors

The G10 grouping of countries originated when 10 member countries of the International Monetary Fund (IMF) together with Switzerland 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 BIS meetings, which are currently held on a bimonthly basis.

The Chairman of the G10 central bank Governors is Sir Edward George, Governor of the Bank of England.

Several permanent committees have been set up by, and report to, the G10 central bank Governors. These are the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the Committee on the Global Financial System and the Committee on Gold and Foreign Exchange.

Basel Committee on Banking Supervision

In December 1974, the G10 Governors set up the Basel Committee on Banking Supervision to improve collaboration between bank supervisors. The secretariat for this Committee is provided by the BIS in Basel.

The Basel Committee is a forum for discussion on the handling of specific supervisory problems. It coordinates the sharing of supervisory responsibilities among national authorities 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, to help strengthen the soundness and stability of international banking. The best known agreement is the 1988 Basel Capital Accord. This aims to achieve international convergence in the measurement of the adequacy of banks' capital and to establish minimum capital standards. The Committee is currently consulting on a new capital adequacy framework that is due to come into force in 2004. With the active contribution of emerging market supervisors, the Committee in 1997 issued the *Core Principles for Effective Banking Supervision*, a comprehensive blueprint for an effective supervisory system.

The Committee is chaired by William J McDonough, President and CEO of the Federal Reserve Bank of New York.

Committee on Payment and Settlement Systems (CPSS)

The BIS provides the secretariat for the G10 Committee on Payment and Settlement Systems and its working parties. This Committee focuses on the efficiency and stability of domestic and cross-border payment and settlement 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 is chaired by Tommaso Padoa-Schioppa, Member of the Executive Board of the European Central Bank.

Committee on the Global Financial System (CGFS)

The Committee on the Global Financial System is a standing committee of the G10 central banks, which meets regularly in Basel. Its secretariat is provided by the BIS. The Committee 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.

The Chairman of the CGFS is Yutaka Yamaguchi, Deputy Governor of the Bank of Japan.

Committee on Gold and Foreign Exchange

The Committee on Gold and Foreign Exchange monitors foreign exchange market activities and identifies implications for central bank policies



and operating procedures, occasionally addressing longer-term structural issues.

The Committee's Chairman is Ian Plenderleith, Executive Director of the Bank of England.

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At the end of 1998, the BIS, in a joint initiative with the Basel Committee on Banking Supervision, established the Financial Stability Institute.

Financial Stability Institute (FSI)

The mandate of the Financial Stability Institute is to help improve and strengthen financial systems and institutions worldwide, primarily through assistance in implementing sound prudential supervision. The FSI concentrates its activities on effective implementation of prudential regulations, promoting common practices and codes of conduct, and providing supervisors with information on the latest developments on market products, techniques and innovations. The FSI holds a large number of seminars and workshops, primarily on banking supervision; however, the FSI programme is being gradually expanded to include securities and insurance supervision.

The Chairman of the FSI is Josef Tošovský.

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There are two other secretariats which operate out of the BIS, namely those of the Financial Stability Forum and the International Association of Insurance Supervisors.

Financial Stability Forum (FSF)

The BIS actively contributes to work on reforming the international financial architecture. This work was first given prominence in 1995 at the Halifax summit of heads of state and government of the G7 countries and ultimately led to the establishment of the Financial Stability Forum in 1999.

The FSF promotes information exchange and coordination among national authorities, international institutions (such as the IMF, OECD and World Bank) and international regulatory or experts' groupings with responsibilities in the area of international financial stability. The BIS and other international institutions and groupings participate in the meetings of the FSF and jointly provide secretariat support through the BIS in Basel.

Andrew Crockett, General Manager of the BIS, currently chairs the FSF in a personal capacity.

International Association of Insurance Supervisors (IAIS)

Since 1998 the BIS has hosted the Secretariat of the International Association of Insurance Supervisors. 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. The Secretariat is independent of, but has its offices at, the BIS, which provides support in certain technical and administrative areas.

The IAIS Executive Committee is chaired by Manuel Aguilera-Verduzco, Presidente, Comisión Nacional de Seguros y Fianzas (Mexico).

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.

The BIS assists the central banks of over 20 industrialised countries in the coordination of technical assistance and selective training. The coordination is supported by a database and by regular meetings of officials from donor and recipient central banks, as well as the IMF and other international organisations. The BIS actively contributes to the work of the Joint Vienna Institute, a facility set up in 1992 to provide for the training needs of the central banks of countries in transition.

In addition, the BIS regularly organises meetings of experts on specialised subjects, such as information technology, security, internal management procedures and specific legal issues of interest to central banks.

Centre for monetary and economic research

The BIS's Monetary and Economic Department conducts research, particularly into monetary and financial questions, to support the activities of groups meeting at the BIS. It also maintains a



macroeconomic database to which contributing central banks have access.

The Department's research focuses on issues of direct interest to central banks, and is thus of an applied nature. Much of the Department's work is published in the *BIS Papers* series, or as *BIS Working Papers*, as well as in academic journals and conference volumes of central banks. The work undertaken also serves, directly or indirectly, as an important input to the wide-ranging reviews of international economic and financial developments contained in the BIS's *Annual Report* and *Quarterly Review*.

The Department also 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 important components 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 databases, which are maintained by the Department, on activity in international debt securities markets, as well as in exchange-traded and over-the-counter (OTC) derivatives. It also maintains a database on foreign exchange and derivatives market activity.

Most of the data are published in the *Quarterly Review*. Data on consolidated international bank lending and on global OTC derivatives market activity are released separately. The BIS contributes to the *Joint BIS-IMF-OECD-World Bank 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

Banking operations

The BIS offers a range of banking services specifically designed to assist central banks in the management of their foreign exchange and gold reserves. It also acts as a banker to, and manages funds for, international financial institutions. The BIS does not accept deposits from, or provide financial services to, private individuals or corporate entities, nor is it permitted to make advances to governments or open current accounts in their name.

The BIS maintains a dealing room in Basel offering a full range of banking services, as well as a smaller dealing room at the BIS's Representative Office in Hong Kong SAR, giving central banks within the Asian region better access to BIS financial services during their trading hours.

At present, around 120 central banks and international financial institutions place deposits with the BIS. The total of currency deposits placed with the BIS amounted to about US\$ 130 billion at the end of March 2001, 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 short notice, the BIS focuses upon maintaining a high degree of liquidity. Funds deposited with the BIS 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. To help them with longer-term reserve management, the BIS offers investment instruments of up to five years.

The BIS has recently launched a range of asset management services tailored for central banks. Features include emphasis on individual customer service and knowledge exchange. Central banks may choose between dedicated portfolio mandates and an open-end fund structure which allows groups of customers to invest in common pools of assets.

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 occasion 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. At various times since the early 1980s the BIS has provided financial support to central banks 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.

Risk control

The Bank's Risk Control function is separate from the Banking Department and consists of three units – Internal Audit, Credit Risk Control and Treasury Risk Control. It reports through the Deputy General Manager to the General Manager. 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

International loan agreements

Since its foundation the BIS has performed various functions as trustee, fiscal agent or depository with regard to a number of international loan agreements. Examples are 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.

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