Activities of the Bank

During the year the Bank continued to play its traditional role in fostering international monetary cooperation. It organised and provided analysis for a wide range of meetings among central banks and within the international financial community on key issues affecting monetary policy and financial stability. While most of these meetings took place in Basle, a growing number were held elsewhere, including at the recently established BIS Representative Office for Asia and the Pacific.

The Bank also continued to serve as a counterparty to central banks in their financial operations, and to provide agency and trustee functions for a variety of financial transactions. In the course of the year, the Bank began marketing asset management services as well as a Medium-Term Instrument to provide central banks with a longer-dated and liquid investment outlet. Within the framework of an international support programme for Brazil, the Bank also coordinated a Credit Facility in favour of the Banco Central do Brasil.

This chapter reviews the principal activities of the Bank in these and other areas during the past financial year. The reports referred to below, as well as the Bank's working papers and economic policy papers, are available on the BIS website (www.bis.org) or, on request, in hard copy.

1. International monetary and financial cooperation

The provision of analysis for and organisation of regular meetings of senior central bank and other officials on key issues of financial policy is the Bank's main contribution to fostering international monetary and financial cooperation. These meetings, all of which are supported by BIS secretariats, fall into four categories: regular consultations among central bank governors and senior officials on conjunctural and monetary issues and on matters affecting financial stability; meetings of standing expert committees that formulate standards or recommend best practices to promote financial stability; meetings involving broader sets of national authorities and international institutions, principally on financial stability issues; and meetings centred on technical areas of central bank activities.

Regular consultations on monetary and financial issues

Consultations among Governors at the BIS take place in three main forums: the traditional meetings of the central bank Governors of the Group of Ten countries; wider meetings involving the Governors of all BIS shareholding central banks (sometimes including guests from major non-shareholding central banks); and a new gathering that brings together a limited number of Governors from the principal industrial and emerging market countries. The regular meetings of G10 Governors provide a focal point for consultations on the economic and financial conjuncture. Three key policy issues dominated meetings in the year under review: containment of the risks posed to the global economy by the crises in Asia and elsewhere; the introduction of the euro; and the challenge of conducting policy in unsettled financial markets amidst evidence of inflated asset prices.

Monetary and financial policy issues likely to remain of interest and relevance over a medium-term horizon are the principal topics of discussion at the regular meetings of the Governors of all the Bank's shareholding central banks. In the year under review, the Governors discussed, among other subjects, the monetary, financial and exchange rate implications of EMU, central banks' involvement in the surveillance and supervision of financial institutions, the role of rating agencies in the operation of financial markets, and the design and operation of financial safety nets. The Governors also discussed the conduct of monetary policy under different exchange rate regimes, and the policy challenges facing the central banks in Asian and Latin American countries in the wake of the recent crises. Finally, the Governors provided high-level input to the Code of Good Practices on Transparency in Monetary and Financial Policies under development by the IMF in consultation with the BIS, its member central banks and representatives of the standing committees on financial stability issues.

Since the beginning of 1999, the Bank has also hosted regular meetings of central bank Governors of the principal industrial and emerging market economies. The global reach of the financial crisis that began in the emerging market economies some two years ago has illustrated the need for expanded consultation on the risks to continued stability. Among other issues, these meetings have discussed current account and exchange rate adjustment in the wake of the Asian financial crises, the pace of bank restructuring in emerging markets, and the risks and challenges posed by asset price inflation amidst deflationary pressures in goods markets. Reflecting its global orientation, the Bank also organised several regional meetings of senior central bank officials. The 1998 Working Party on Monetary Policy in Latin America was hosted by the Banco Central do Brasil in November, and the Working Party on Monetary Policy in Asia was held at the BIS Representative Office in Hong Kong SAR in March 1999. The annual policy meeting of Deputy Governors of central banks of the major emerging market economies was held in Basle in December 1998 and dealt with techniques of bank restructuring.

In addition to the above meetings, the Bank continued to host regular consultations of senior central bank officials on a variety of subjects. The Gold and Foreign Exchange Committee monitors foreign exchange market developments, with particular focus in the year under review on the introduction of the euro and on the orderly functioning of markets under the strains experienced during the period.

Meetings of standing committees on financial stability issues

The Bank continued to provide the secretariats for a number of standing committees working to promote financial stability. Two of these committees, the Basle Committee on Banking Supervision and the Committee on the Global Financial System (formerly the Euro-currency Standing Committee), are concerned with the safe functioning of the banking sector and the markets involved in the international financial system respectively. The third, the Committee on Payment and Settlement Systems (CPSS), focuses on the infrastructure which links institutions and supports the orderly functioning of markets. By covering important elements of three main pillars of the international financial system – institutional participants, markets and infrastructure – these committees provide a comprehensive and coherent oversight of ongoing developments. All three committees, along with the BIS, are represented in the Financial Stability Forum recently established on the initiative of the G7 Ministers and Governors.

Basle Committee on Banking Supervision

The Basle Committee on Banking Supervision has made significant progress in a number of areas that are key to improving financial stability. Its principal focus of attention over the past year has been the Basle Capital Accord. The Committee has conducted a thorough review of the Accord and is now in the process of finalising a consultative paper, setting out its views on how the Accord should be amended to take account of developments in the financial markets in the 11 years since it was issued. The objectives in the revision are: (i) continued promotion of safety and soundness in the financial system; (ii) enhancement of competitive equity; (iii) a more comprehensive approach to addressing risks; and (iv) continued focus on internationally active banks – although the underlying principles of a revised Accord should be suitable for banks of varying levels of complexity and sophistication. The revised Accord will place strong emphasis on market discipline and the supervisory review process as essential complements to minimum capital requirements.

Recognising that a substantial overhaul of the Capital Accord will probably take several years, the Committee intends to develop two parallel approaches to quantitative capital requirements: a revised standardised approach that seeks to redress critical shortcomings in the present Accord, and an alternative approach based on banks' internal rating systems that would be available to banks with sophisticated systems for rating credit risk. The Committee will also continue to explore the possibility of using credit risk models for regulatory purposes at a future date.

The last two BIS Annual Reports have described the widening role of the Basle Committee beyond its own G10 membership. The Committee has continued to work closely with non-G10 supervisors, the IMF and the World Bank to strengthen the financial systems in emerging market economies, principally by promoting the implementation of the Core Principles for Effective Banking Supervision that were finalised in September 1997. A survey on the state of implementation of the Core Principles, conducted as part of the preparatory work for the 1998 International Conference of Banking Supervisors (see below), identified a number of areas where the Principles need elaboration. These are being addressed by the Basle Committee's Core Principles Liaison Group, which contains a mix of about 20 G10 and emerging market countries, as well as representatives of the IMF and the World Bank. To assist efforts to foster and monitor implementation of the Principles, the Liaison Group is currently developing additional methodology designed to establish detailed criteria for assessing implementation in individual countries.

The Committee has released a large number of policy papers since the last Annual Report. These have covered a wide range of topics, including bank transparency (September 1998), banks' internal control systems (September 1998), loan accounting (October 1998), operational risk management (October 1998), disclosures of trading and derivatives activities (November 1998), Year 2000 contingency planning (January 1999), banks' interactions with highly leveraged institutions (January 1999), the supervision of financial conglomerates (February 1999), and credit risk modelling (April 1999). Most of these papers include guidance for banks and bank supervisors on sound practices. An updated version of the comprehensive Compendium of Basle Committee documents on supervisory practices and methods was issued in January 1999.

The Basle Committee has continued to develop relationships with and among supervisors from all parts of the world. It sponsored the 10th International Conference of Banking Supervisors that took place last October in Sydney at the invitation of the Reserve Bank of Australia and the Australian Prudential Regulation Authority. The two main themes were the implementation of the Core Principles for Effective Banking Supervision and operational risk. A panel discussion was also held on Year 2000 issues. About 250 delegates from 120 countries attended the conference. The Committee also continues to work closely with the regional groups of banking supervisors around the world.

Committee on the Global Financial System

Since the spring of last year the work of the Committee on the Global Financial System has proceeded along two parallel lines: the monitoring and analysis of developments in international financial markets, and the examination of structural issues with a bearing on financial stability and possible policy responses.

In the aftermath of the Asian crisis, the Committee monitored the evolving situation closely and analysed the lessons to be drawn regarding: (i) potential improvements in transparency; (ii) the behaviour of international capital flows; (iii) the effectiveness of international support operations; and (iv) management of country risk exposures by internationally active banks. This work formed the basis for a report to G10 Governors in May 1998 and a report completed in October 1998 which examined the use of information in the decisions of banks that lend to emerging market economies. In addition, the Committee strengthened its regular monitoring of developments in the global financial system and individual countries with a view to identifying potential vulnerabilities.

As part of its longer-term work designed to promote financial stability, the Committee, together with the other Basle-based groupings, reported to G10 Governors in July 1998 on the desirability and feasibility of developing international norms or standards in a number of areas. Many of the efforts of the Committee in the period under review have a bearing on two such areas: promoting deep and liquid markets and transparency.

With regard to the promotion of deep and liquid markets the Committee completed three reports. One report, prepared by a joint study group with the CPSS, reviewed settlement procedures and risk management practices in OTC derivatives markets and identified further steps that could be taken to mitigate risk (September 1998). A second report examined the structure and functioning of repo markets in several industrial countries and in the euro area, considered their potential systemic implications, and outlined the preconditions for a proper development of these markets (March 1999). The third study addressed the determinants of market liquidity from a theoretical and empirical perspective, reviewed the characteristics of established government securities markets, and drew a preliminary set of conclusions regarding the requirements for securing liquid markets (April 1999).

The work completed or under way in the area of transparency falls under three headings: overseeing improvements to the BIS international banking and derivatives statistics; promoting greater dissemination of information about official reserve positions; and increasing the transparency of the financial activities of market participants more generally.

Since the Asian crisis, working in close consultation with statistical experts at the BIS and at member central banks, the Committee has taken several steps to improve the timeliness, quality and coverage of the BIS international consolidated banking statistics. In March 1999 the BIS, the IMF, the World Bank and the OECD jointly published for the first time a set of creditor-based measures of countries' external debt. In December 1998, the BIS published the first instalment of a new semiannual set of regular derivatives market statistics which had been proposed in a Committee report released in 1996.

To remedy shortcomings in existing information concerning the on- and off-balance sheet activities of central banks and other public sector entities, in October 1998 the Committee published a template for the comprehensive disclosure of official foreign exchange reserves and potential drains on them. After some refinements and coordination with the IMF, the template became part of the IMF's Special Data Dissemination Standard in March 1999.

Three working groups, two of which include representatives of emerging market countries, are investigating other ways of enhancing the transparency of the activities of financial market participants. One group is concerned with disclosure practices by individual financial institutions, building on a previous report issued by the Committee in 1994. The second group is examining what kind of aggregated information would help improve the functioning of markets. These efforts are a natural complement to initiatives undertaken by the Basle Committee on Banking Supervision in related areas, including its recent report on banks' interactions with highly leveraged institutions. A third working group is studying the stress test methodologies used by large internationally active banks.

In February 1999 the G10 Governors changed the name of the Committee and updated its mandate to reflect the changes that had taken place in its focus over recent years. The new mandate stresses the role of the Committee in monitoring developments in global financial markets and national economies, highlights the promotion of financial market stability and calls for a close examination of the link between monetary and financial stability.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems continued its efforts to promote robust payment and settlement systems and thereby strengthen financial market infrastructures and reduce systemic risk. The Committee intensified its cooperation with other international groupings and is associating an increasingly wide group of non-G10 central banks with its work.

Following the publication of its report on foreign exchange settlement risk in July 1998, the Committee continued to monitor and encourage private sector efforts to this end. The CPSS has been engaged in an ongoing dialogue with various private sector groups involved in the design and enhancement of schemes to reduce foreign exchange settlement risk. It is also working closely with the Basle Committee on Banking Supervision in developing guidance for supervisors in this area.

The CPSS, in cooperation with the International Organization of Securities Commissions (IOSCO), is continuing to promote greater transparency in securities settlement arrangements through the implementation of the Disclosure Framework for Securities Settlement Systems, published in February 1997. A large number of such systems around the world have now made information publicly available on their ownership structure, their custody, clearing and settlement operations and their risk management procedures.

A joint IOSCO/CPSS working group on securities lending is in the process of finalising a report that analyses the implications for securities regulators and central banks of securities lending and similar transactions, and in particular the impact of these transactions on securities clearance and settlement systems. The working group consists of representatives of central banks and securities regulators from both G10 and emerging market countries. Its report is likely to consider the procedures used by market participants in securities lending transactions; the effect of the economic, legal and regulatory environment on securities lending activity; and the risks that may arise in the course of settling these transactions.

The Committee's working group on retail payments is analysing trends in the use of retail payment instruments and in the related clearing and settlement arrangements. An improved understanding of the retail payments industry will allow central banks to adequately assess the challenges posed by innovations in this area. With respect to electronic money, the Committee, through its Secretariat at the BIS, has continued to monitor global developments in card-based and network-based products.

The CPSS has continued to strengthen its cooperation with non-G10 central banks. Various individual central banks or regional central banking groups are preparing, with the support of the CPSS Secretariat, publications that describe the payment systems in their country or geographical area. The Committee has also supported an increasing number of payment system workshops and seminars organised by the BIS jointly with regional central banking groups.

Cooperation with other organisations has taken a number of forms. The CPSS is one of the four ex officio members of the Joint Year 2000 Council, whose objective is to reduce the risks associated with the Year 2000 problem (see below). Cooperation with non-G10 central banks and other international organisations is most evident in the ongoing efforts to define "Core Principles" for the design and operation of payment systems. The Principles are being developed by a Task Force comprising G10 central banks and an equal number of non-G10 central banks as well as the European Central Bank (ECB), the IMF and the World Bank. These Principles will assist central banks, system operators and international organisations in improving the safety and efficiency of payment systems and thereby strengthen the infrastructure of financial markets globally.

Broader international cooperation

BIS contributions to the work of the Group of Ten

As in the past, the BIS contributed to the work undertaken by the G10 Finance Ministers and central bank Governors, their Deputies and the working parties set up under their auspices. During the period under review, the focus of the G10 was on improvements in crisis prevention and management. The Ministers and Governors stressed the importance of the timely and substantive involvement of the private sector in the resolution of international financial crises. The growth of private capital flows to emerging markets over the past decade, the shift in the composition of portfolio flows towards securitised debt, and the moral hazard associated with official financing make it neither desirable nor feasible for international financial crises to be resolved without the involvement of the private sector. A number of ways of achieving such involvement are under consideration, including improvements in relations between creditors and debtors, greater use of contingent lines of credit and incorporation of collective action clauses into bond contracts.

BIS contributions to the work on reforming the international financial architecture

The BIS, together with other international financial institutions and organisations, has actively contributed to the ongoing work on reforming the international financial architecture. During the period under review, an important part of this work was the completion of three reports on the international financial architecture by working groups comprising representatives from central banks and finance ministries of industrial countries and emerging market economies.

The Working Group on Transparency and Accountability considered the contributions that transparency and accountability can make to improvements in economic performance, as well as the nature of the information needed to give effect to these improvements. The Working Group on Strengthening Financial Systems sought a consensus on principles and policies that foster the development of a stable, efficient financial system and set out options for enhancing cooperation and coordination among national and international bodies concerned with financial stability. The Working Group on International Financial Crises drew up principles and examined policies that could help prevent international financial crises and facilitate the orderly and cooperative resolution of crises that may occur in the future. The recommendations of the working groups were endorsed by the Finance Ministers and central bank Governors of 26 countries during the 1998 annual meetings of the IMF and the World Bank.

Since the release of the working groups' reports, dialogue on strengthening the international financial architecture has continued. On the initiative of the G7, senior officials from 33 countries met in Bonn and Washington to discuss topics ranging from the maintenance of sustainable exchange rate regimes to proposals for strengthening the IMF and the World Bank and policies to minimise the social impact of crises. In addition, a Financial Stability Forum has been established to improve international cooperation with respect to actions to strengthen financial systems. The Forum will assess issues and vulnerabilities affecting the global financial system and identify and oversee the actions needed to address them. The BIS and other international financial institutions and organisations participate in the meetings of the Forum and also jointly provide secretariat support.

International Association of Insurance Supervisors

The BIS has hosted the Secretariat of the International Association of Insurance Supervisors (IAIS) since the Secretariat's establishment in January 1998. Similar to the Basle Committee on Banking Supervision but directed at insurance supervision, the IAIS aims to contribute to global financial stability by improving supervision of the insurance industry through the development of practical standards for insurance supervision, provision of mutual assistance and exchange of information on members' respective experiences.

Supplementing the existing papers – the IAIS Core Principles, the Insurance Concordat, the Guidance on Insurance Regulation and Supervision for Emerging Market Economies and the model Memorandum of Understanding – the IAIS issued in 1998 international standards on the licensing of insurance companies, on-site inspections and the use of derivatives. In February 1999 the IAIS released policy papers on Year 2000 contingency planning and the supervision of financial conglomerates in collaboration with other international regulatory bodies. The IAIS is currently formulating principles and standards in the areas of solvency regulation, investment regulation, insurance accounting, electronic commerce, market conduct of insurance business and reinsurance. It is also expanding the Insurance Concordat to cover not only cross-border establishments but also cross-border services of internationally active insurance companies.

The IAIS arranged several training programmes and provided training materials for insurance supervisors in order to help members comply with IAIS supervisory principles and standards. In the past year, it organised regional training seminars for insurance supervisors in Poland (March 1998), South Africa (July 1998) and Singapore (February 1999).

The IAIS actively participates in the newly established Financial Stability Forum in order to promote coordination with other international financial bodies and national financial regulatory institutions.

Joint Year 2000 Council

The potential risks to IT systems associated with the Year 2000 date change have been a major preoccupation of senior policymakers around the world. Since its establishment in April 1998, the Joint Year 2000 Council, in cooperation with its sponsoring committees (Basle Committee on Banking Supervision, CPSS, IAIS and IOSCO), has taken a range of initiatives to prompt action by financial market authorities to address the problem. An important objective is to advance coordination within the global regulatory community as well as between the public and private sectors on important Year 2000 policy issues. These activities have been supported by the Council's Secretariat, which is provided by the BIS.

The Council has met regularly to discuss and develop policy guidance in a number of areas. It has also met on a regular basis with its External Consultative Committee, which groups a large number of representative international organisations from the private and public sectors, in order to learn about ongoing developments and emerging concerns. With the cooperation and support of its member institutions, the Council organised a series of regional meetings. Approximately 400 regulators from 100 countries attended these meetings, which were held in Asia, Europe, the Americas, the Middle East and Africa in late 1998 and early 1999. In cooperation with the private sector, the Council also organised a high-level meeting between key regulators and senior executives of international financial market firms at which progress with remediation programmes was assessed and potential risk mitigation strategies were discussed.

The policy papers produced by the Council have covered a number of issues, including the scope and impact of the Year 2000 problem, the importance of internal and external testing programmes, the benefits of improved disclosure and information sharing, and contingency planning. The Council Secretariat also produces a regular bulletin that reviews particular issues and describes policy initiatives in different regions. In total, the Council's publications reach more than 1,000 regulators in 170 countries.

The Council plans to continue to provide a platform for information sharing amongst financial market authorities worldwide and to assist in the formulation of relevant policy recommendations. There is a growing concern that, in the months leading up to 2000, the risk of potential Year 2000 disturbances could contribute to financial market uncertainty and related volatility. The Council, in cooperation with its sponsoring committees and other relevant Basle-based committees, intends to monitor Year 2000 developments closely and to examine, where appropriate with representatives of the private sector, possible risk mitigation measures, event management procedures and public communication strategies.

Other forms of central bank cooperation

Coordinating Services for Central Banks and International Organisations

The cooperation between the BIS, the committees hosted by it and various regional central bank groupings intensified during the reporting period. The regional groups, in particular CEMLA (Centro de Estudios Monetarios Latinoamericanos), EMEAP (Executive Meeting of East Asian and Pacific Central Banks), SEACEN (South-East Asian Central Banks), SAARC (South Asian Association for Regional Cooperation), the GCC (Gulf Cooperation Council) and SADC (Southern African Development Community), assisted the BIS and the Basle-based committees in disseminating standards and best practices to the central banks in their regions. The BIS and the Basle-based committees conducted an increasing number of joint seminars with regional groupings in the areas of banking supervision, payment and settlement systems, and monetary and financial stability.

The training needs of countries in transition continued to be addressed within the framework of the Joint Vienna Institute. More than 10,000 officials, mainly from the public sector, have attended courses and seminars at the JVI since its establishment in late 1992. The mandate of the Institute was renewed by the five sponsoring international financial organisations (BIS, EBRD, IBRD, IMF and OECD) – joined in January 1999 by the World Trade Organization – for another five years until mid-2004. The seminars organised by the BIS, but drawing also on input from central banks and other institutions, covered banking supervision, payment and settlement systems, monetary and financial stability, legal issues and reserve management.

Group of Experts on Monetary and Economic Data Bank Questions

The Group of Experts on Monetary and Economic Data Bank Questions continued to focus on challenges presented by the Year 2000, EMU and steps towards broadening the scope of secure electronic information exchange among central banks to include data, documents and support for conferencing and workgroup capabilities. A pilot project was successfully carried out with a small number of central banks, providing an opportunity to explore essential business and technology issues that could lead to the provision of new central bank information services by the BIS. A special Technical Coordination Workshop was convened to review details and share views on a variety of topics: the Year 2000 and associated changes in data exchange systems and formats for BIS Data Bank participants; statistical data coverage issues associated with the creation of the euro; and alternatives that followed from the pilot project. Central banks encouraged the BIS to move forward with the launch of broadened electronic information services and to deliver a secure and reliable production platform to achieve this objective on a timely basis.

Group of Computer Experts

Discussions in the Group of Computer Experts during the period under review focused on the efforts of central banks' IT departments to prepare for the introduction of the euro and the Year 2000. With the euro successfully implemented, extensive programmes are in place to ensure that the IT systems used for payments, settlements and other functions can undergo timely, comprehensive internal and external testing for Year 2000 compliance.

Central banks are increasingly using internet technologies for communicating substantial amounts of information to a variety of audiences: sharing information in-house, exchanging economic and statistical data with universities and research institutes, and sharing information among themselves and with the general public through websites. The Group discussed ways of facilitating the use of internet technologies by central banks and the measures that need to be taken to address the risks posed by linking internal IT systems to the internet, particularly with regard to data confidentiality and system availability. In this context the Group also examined recent technological developments such as virtual private networks, digital signatures and public key infrastructures.

Representative Office for Asia and the Pacific

In July last year, the Bank established its first presence outside Switzerland in the form of the Representative Office for Asia and the Pacific in Hong Kong SAR. The Office aims to further enhance information exchange and cooperation among central banks and monetary authorities in the region, and between them and central banks in the rest of the world. It is also involving the region's central banks more closely in the activities of the Bank. On the banking side, the Office has served to promote the Bank's business relationships with regional central bank customers; in addition, the Office contributes to the Bank's research and analysis of financial and economic developments in the Asia-Pacific region.

Since its opening, meetings at the new Office have brought together central bank officials from within and outside the region. A meeting of reserve managers, also attended by the ECB, discussed preparations and prospects for the euro. In January, a special Governors' meeting exchanged views on bank restructuring, drawing on experiences from Europe and the Americas. And a meeting of foreign exchange market managers in the region, with their counterparts from western and central Europe, Africa and North America, discussed the foreign exchange strategies of highly leveraged financial institutions.

Financial Stability Institute

Last year's Annual Report noted the establishment of the Financial Stability Institute as a joint initiative of the Bank and the Basle Committee on Banking Supervision in response to the need to strengthen financial systems worldwide. Its first Chairman, John Heimann, took up his position on 1 February 1999. The Institute will focus first on strengthening financial systems and institutions, starting with banking and gradually adding securities dealers and insurance, as the distinctions between these three sectors have become increasingly blurred. It is intended to hold seminars where heads of supervision from emerging markets will interact with their peers from leading industrial nations and experienced financial sector participants, with the aim of implementing and enforcing better financial structures through application of the Core Principles for Effective Banking Supervision. The Institute collaborates closely with the Toronto International Leadership Centre for Financial Sector Supervision, sponsored by the World Bank and the Canadian government. From June onwards, joint seminars in the broader field of strengthening supervisory capacities and workshops on areas such as market risk and risk management will be organised in Basle and Toronto.

A wide-ranging training programme for middle-level senior supervisors is planned with seminars to be organised in Basle and in each of the major regions of the world. Cooperation with the World Bank, the IMF and central banks is envisaged.

2. Functions as Agent and Trustee

During the past financial year the Bank continued to act as Agent and Trustee in connection with international financial settlements.

Agent for the private ECU clearing and settlement system

Following the introduction of the euro on 1 January 1999, the private ECU clearing and settlement system was replaced by the new euro clearing system of the Euro Banking Association (EBA), Paris. In this connection, the BIS ceased to act as Agent for the private ECU clearing and settlement system on 31 December 1998 and the related BIS/EBA Agreement was terminated as of that date.

The BIS had acted as Agent for the ECU clearing system since October 1986. A description of the structure and operation of the ECU clearing system can be found in the 56th Annual Report of June 1986. The number of clearing banks had risen steadily over the years, and during summer 1998 a further 11 banks were granted the status of clearing bank by the EBA, while five banks withdrew from the system. The total number of ECU clearing banks thus amounted to 62 by the time of the switchover to the new euro clearing system.

Trustee for international government loans

With regard to the funding bonds 1990–2010 of the Dawes and Young Loans, the Deutsche Bundesbank, as Paying Agent for all uncertificated bonds of all issues of the Dawes and Young Loans, notified the Bank that it had paid out approximately DM 3.5 million to bondholders in respect of redemption at the maturity date of 3 October 1998 and DM 7.0 million in respect of interest at the maturity dates of 3 April and 3 October 1998, as well as interest arrears. The newly calculated redemption values and conversion factors in respect of the aforementioned interest maturity dates were published by the Bundesschuldenverwaltung (BSV – German Federal Debt Administration) in the Bundesanzeiger (Federal Gazette).

On the occasion of the introduction of the euro on 1 January 1999, the BSV announced that the aforementioned funding bonds will not be converted into euros. However, the method used by the German authorities to calculate the redemption values of these bonds for payments of interest and principal will be altered. Details can be found in the announcement made by the BSV in Bundesanzeiger No. 57 of 24 March 1999.

Concerning the application of the exchange guarantee clause for the Young Loan by the BSV, the Bank has repeated its earlier reservations stated in the 50th Annual Report of June 1980, which also extend to the funding bonds 1990–2010. The Bank has also drawn attention to the fact that the introduction of the euro does not entail any change with regard to the aforementioned reservations. The Paying Agents have been advised to take the appropriate precautionary measures in order to safeguard the rights of the bondholders.

Details of the funding bond issues and the Bank's functions can be found in the Bank's 63rd Annual Report of June 1993.

Collateral Agent for Brazilian bonds

Under two Collateral Pledge Agreements signed on 15 April 1994, 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, maturing in either 15 or 30 years, issued by Brazil under the external debt restructuring arrangements agreed in November 1993.

Collateral Agent for Peruvian bonds

Under agreements signed on 7 March 1997, 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, maturing in either 20 or 30 years, issued by Peru under the external debt restructuring arrangements agreed in November 1996.

Collateral Agent for Côte d'Ivoire bonds

Under agreements signed on 31 March 1998, the BIS acts in the capacity of Collateral Agent to hold and invest collateral for the benefit of the holders of certain US dollar and French franc denominated bonds, maturing in either 20 or 30 years, issued by Côte d'Ivoire under the external debt restructuring arrangements agreed in May 1997.

3. Financial assistance to central banks

Within the framework of an international financial support programme put together for Brazil in late 1998, the BIS coordinated a Credit Facility for up to US$ 13.28 billion in favour of the Banco Central do Brasil. Funds made available by the BIS under this Facility are for the most part provided with the backing or guarantee of 19 participating central banks. A parallel Facility for up to US$ 1.25 billion was also granted by the Japanese monetary authorities.

Drawings on both arrangements are made in conjunction with Brazilian purchases under an IMF Supplemental Reserve Facility.

A first drawing of US$ 4.15 billion was made on the BIS Facility on 18 December 1998. A second drawing of US$ 4.5 billion occurred on 9 April 1999. Proportional amounts were made available in each case under the Japanese Facility.

As part of its normal business activity, the BIS also made various short-term advances to central banks during the course of the year on an uncollateralised as well as on a collateralised basis.

4. Operations of the Banking Department

At 31 March 1999 the Balance Sheet stood at 66,237 million gold francs, representing an increase of 6.1% (3,787 million gold francs) over the total of 62,450 million reached a year earlier. Exchange rate factors had a positive impact of approximately 650 million gold francs on the total as a result of a slight weakening of the US dollar against other currencies between the beginning and the end of the financial year.

Against the background of last autumn's financial market turbulence, the Balance Sheet expanded significantly to reach an all-time record level of 89,466 million gold francs in December 1998. The general flight to quality which occurred at this time highlighted the credit standing of the BIS. As credit concerns diminished, however, this increase in the Balance Sheet was largely reversed in the first quarter of 1999.

Liabilities

The BIS customer base consists of more than 100 central banks and international institutions. Continuing its efforts to improve the competitiveness and scope of its banking services, the BIS adopted various measures during the course of the year to price its financial products more attractively and also launched a new longer-term instrument with maturities out to five years.

On 31 March 1999 borrowed funds in gold and currencies (excluding repurchase operations) totalled 60,898 million gold francs, compared with 57,497 million at the end of the previous year. Deposits in gold, which declined by 281 million gold francs to 3,193 million, accounted for 5.2% of total borrowed funds against 6% a year earlier. Currency deposits grew over the period by 3,682 million gold francs, a decline in fixed-term deposits being more than offset by increased investments in more liquid, tradable BIS instruments. The volume of such currency placements tends to be volatile, reflecting not only the active use made by central banks of BIS banking facilities for liquidity management but also the safe haven role of the BIS in uncertain market conditions. The average volume of borrowed currencies measured on a daily basis was 8.4% higher than in the financial year 1997/98.

The past financial year was characterised by a 13.6% increase in funds received in US dollars. As a result, the share of the US dollar in total borrowed funds in currencies continued its upward trend of recent years to reach 65.9%

on 31 March 1999, compared with 62.1% a year earlier. In contrast, the share of the euro or its constituent currencies declined over the same period from 24.8% to 20.2% of total borrowed funds.

Deposits by central banks rose from 50,468 million to 54,016 million gold francs, representing 93.6% of total borrowed funds in currencies at end-March 1999, the proportion being virtually unchanged from the previous year. Funds placed by other depositors (mainly international institutions) amounted to 3,690 million gold francs (or 6.4% of the total), compared with 3,555 million (or 6.6%) on 31 March 1998.

Assets

The bulk of the reserve assets held by central banks with the BIS are short-term and one of the Bank's prime objectives in employing these resources is therefore to preserve a high degree of liquidity. The Bank conducts its operations in a highly prudent manner to ensure the safety of the deposits entrusted to it; credit risk, maturity transformation and exchange rate risk are rigorously monitored.

Having increased year on year by 4,157 million gold francs, investments in currencies amounted to 62,189 million gold francs on 31 March 1999, compared with 58,032 million a year earlier. These assets represent deposits with first-class institutions of international standing as well as short-term negotiable securities, including treasury bills. The Bank also grants advances to central banks; at end-March 1999 the total of such advances outstanding amounted to 2,550 million gold francs, the bulk of which represented funds extended under the multilateral Credit Facility coordinated by the BIS in favour of the Banco Central do Brasil (see 3 above).

The Bank's assets in gold declined from 4,159 million to 3,879 million gold francs during the financial year, reflecting the decrease in gold deposits received.

Apart from its holdings of 192 tonnes of gold, the Bank's own funds are largely held in liquid securities issued or guaranteed by the governments of the major industrial countries as well as top-rated supranationals. This investment policy proved particularly effective during last year's disturbed market conditions.

The Bank also makes use of certain derivative instruments, essentially with a view to managing its own funds more efficiently and hedging risks on its borrowed funds (see Note 8a to the Balance Sheet).

5. Net profits and their distribution

The accounts for the 69th financial year ended 31 March 1999 show a net profit of 303,618,800 gold francs, compared with 259,160,599 gold francs for the preceding financial year. The high level of the Balance Sheet total during the year resulted in an increase in income from borrowed funds operations. Interest income from own funds investments fell slightly as a consequence of the general fall in longer-term interest rates in major markets. However, the lower interest rate environment also led to large realised capital gains on the Bank's investment portfolios, and the increased gains from securities trading contributed significantly to the recorded rise in profits. A further factor behind the increase in the net profit was the decision of the Bank's Board of Directors to reduce again the amount allocated to the provision for banking risks and other eventualities.

This year's result is shown after deduction of 66,762,397 gold francs in respect of costs of administration, compared with the previous year's figure of 55,701,805 gold francs. Of this increase, 6,016,352 gold francs resulted from the incorporation for the first time of a depreciation charge, following the introduction of the new accounting policy under which the Bank's land, buildings and equipment are capitalised and depreciated. The Bank's costs of administration, excluding depreciation, increased by 5,044,240 gold francs or 9.1%, but valuation adjustments accounted for part of this increase. In terms of Swiss francs, the currency in which most of the Bank's expenditure is incurred, the rise in costs, excluding depreciation, amounted to 6.9%.

On the basis of Article 51 of the Statutes, the Board of Directors recommends that the net profit of 303,618,800 gold francs be applied by the General Meeting in the following manner:

(i) an amount of 57,366,159 gold francs in payment of a dividend of 320 Swiss francs per share;

(ii) an amount of 49,250,528 gold francs to be transferred to the general reserve fund;

(iii) an amount of 3,000,000 gold francs to be transferred to the special dividend reserve fund; and

(iv) an amount of 194,002,113 gold francs, representing the remainder of the available net profit, to be transferred to the free reserve fund. This fund can be used by the Board of Directors for any purpose that is in conformity with the Statutes.

If the above proposals are accepted, the dividend will be paid on 1 July 1999 to the shareholders whose names are contained in the Bank's share register on 20 June 1999.

The Balance Sheet, the Profit and Loss Account and summary statements showing the movements during the financial year in the Bank's capital and reserves can be found at the end of this Report. The Bank's accounts have been audited by PricewaterhouseCoopers AG, who have confirmed that the Balance Sheet and the Profit and Loss Account, together with the Notes on pages 174–180, give a true and fair view of the Bank's financial position at 31 March 1999 and of the results of its operations for the year ended on that date. Their report is to be found immediately following the accounts.

6. Changes in the Board of Directors

At its meeting on 8 February 1999 the Board elected Urban Bäckström, Governor of Sveriges Riksbank, as Chairman of the Board of Directors and President of the Bank for a period of three years commencing on 1 March

1999, when Alfons Verplaetse relinquished those offices on retiring as Governor of the National Bank of Belgium.

Guy Quaden, who succeeded Alfons Verplaetse as Governor of the National Bank of Belgium, became an ex officio Director from 1 March 1999.

Following the resignation of Philippe Wilmès as a member of the Board in March 1999, Guy Quaden appointed Alfons Verplaetse to this position. Eddie George, Governor of the Bank of England, renewed to May 2002 the appointment of Lord Kingsdown as a member of the Board under Article 27(2) of the Statutes.

Urban Bäckström's term as a member of the Board of Directors under Article 27(3) of the Statutes expired on 31 March 1999 and he was elected for a further three years.

There were three changes amongst the Alternates of ex officio Directors. In September 1998 Hans Tietmeyer, President of the Deutsche Bundesbank, appointed Jürgen Stark. Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System, appointed Karen H Johnson in November 1998 and in March 1999 Guy Quaden appointed Jan Smets in place of Marcia De Wachter.

The Bank was saddened to hear of the death of René Larre on 1 January 1999 at the age of 83. Mr Larre had joined the Bank on 1 May 1971 as General Manager, a position he occupied until his retirement in February 1981.

Robert D Sleeper was appointed Head of the Banking Department from 1 February 1999. He succeeded Malcolm Gill, who retired in March 1999, having joined the Bank in December 1991.

Balance Sheet and Profit and Loss Account

at 31 March 1999

Balance Sheet at 31 March 1999

(in gold francs – see Note 2(a) to the Accounts)

1998	Assets	1999
	Gold	
3 037 168 543	Held in bars	*2 801 471 476*
1 122 386 712	Time deposits and advances	*1 077 182 612*
4 159 555 255		3 878 654 088
7 776 756	Cash on hand and on sight account with banks	8 289 300
1 863 872 732	Treasury bills	7 314 049 359
	Time deposits and advances in currencies	
25 267 793 274	Not exceeding 3 months	*21 413 790 799*
9 594 385 217	Over 3 months	*11 009 185 563*
34 862 178 491		32 422 976 362
	Securities purchased under resale agreements	
2 696 998 195	Not exceeding 3 months	*276 014 585*
83 973 665	Over 3 months	–
2 780 971 860		276 014 585
	Government and other securities at term	
3 024 906 378	Not exceeding 3 months	*4 658 672 728*
15 492 166 080	Over 3 months	*17 509 173 124*
18 517 072 458		22 167 845 852
1	Land, buildings and equipment	124 693 036
258 747 077	Miscellaneous	44 554 468
62 450 174 630		66 237 077 050

1998 After allocation of the year's net profit	Liabilities	1999 Before allocation of the year's net profit	1999 After allocation of the year's net profit
323 228 125	Paid-up capital	323 228 125	323 228 125
2 268 525 024	Reserves	2 359 389 062	2 605 641 703
247 188 455	Valuation difference account	265 360 020	265 360 020
	Deposits (gold)		
3 010 120 795	Sight	*2 775 616 571*	*2 775 616 571*
309 454 649	Not exceeding 3 months	*233 632 571*	*233 632 571*
154 169 729	Over 3 months	*183 327 484*	*183 327 484*
3 473 745 173		3 192 576 626	3 192 576 626
	Deposits (currencies)		
3 388 447 478	Sight	*3 005 634 040*	*3 005 634 040*
48 774 372 346	Not exceeding 3 months	*51 674 794 423*	*51 674 794 423*
1 860 721 733	Over 3 months	*3 025 353 687*	*3 025 353 687*
54 023 541 557		57 705 782 150	57 705 782 150
	Securities sold under repurchase agreements		
30 730 705	Not exceeding 3 months	121 452 148	121 452 148
256 984 348	Staff pension scheme	–	–
1 773 681 784	Miscellaneous	1 965 670 119	1 965 670 119
	Profit and Loss Account	303 618 800	
52 549 459	Dividend payable on 1 July		57 366 159
62 450 174 630		66 237 077 050	66 237 077 050

Profit and Loss Account

for the financial year ended 31 March 1999
(in gold francs)

	1998	1999
Interest and discount, and other operating income	3 823 693 826	4 050 134 509
Less: interest and discount expense	3 508 831 422	3 679 753 312
Net interest and other operating income	314 862 404	370 381 197
Less: costs of administration		
Board of Directors	*1 244 034*	*1 330 121*
Management and staff	*39 425 067*	*40 819 397*
Office and other expenses	*15 032 704*	*18 596 527*
Depreciation	*–*	*6 016 352*
	55 701 805	66 762 397
Net profit for the financial year	259 160 599	303 618 800

The Board of Directors recommends to the Annual General Meeting that the net profit for the year ended 31 March 1999 be allocated in accordance with Article 51 of the Statutes as follows:

	1998	1999
Dividend: 320 Swiss francs per share on 517 165 shares (1998: 300 Swiss francs)	52 549 459	57 366 159
	206 611 140	246 252 641
Transfer to general reserve fund	41 322 228	49 250 528
	165 288 912	197 002 113
Transfer to special dividend reserve fund	3 000 000	3 000 000
	162 288 912	194 002 113
Transfer to free reserve fund	162 288 912	194 002 113
	–	–

Movements in the Bank's paid-up capital and reserves

during the financial year ended 31 March 1999
(in gold francs)

I. Paid-up capital

	Number of shares	Gold francs
Shares of 2 500 gold francs, of which 25% is paid up:		
Balances at 31 March 1998	517 165	323 228 125
Balances at 31 March 1999 as per Balance Sheet	517 165	323 228 125

II. Development of the reserve funds

	Legal reserve fund	General reserve fund	Special dividend reserve fund	Free reserve fund	Total of reserve funds
Balances at 31 March 1998 after allocation of net profit for the financial year 1997/98	32 322 813	1 016 326 624	62 530 055	1 157 345 532	2 268 525 024
Add: effect of change of accounting policy for land, buildings and equipment: see Notes to the Accounts (g) and (l)	–	90 864 038	–	–	90 864 038
Balances at 31 March 1999 before allocation of net profit	32 322 813	1 107 190 662	62 530 055	1 157 345 532	2 359 389 062
Add: allocations of net profit for the financial year 1998/99	–	49 250 528	3 000 000	194 002 113	246 252 641
Balances at 31 March 1999 as per Balance Sheet	32 322 813	1 156 441 190	65 530 055	1 351 347 645	2 605 641 703

III. Paid-up capital and reserve funds at 31 March 1999 (after allocation) were represented by:

	Paid-up capital	Reserve funds	Total of capital and reserves
Net assets in			
Gold	323 228 125	338 760 661	661 988 786
Currencies	–	2 266 881 042	2 266 881 042
Balances at 31 March 1999 as per Balance Sheet	323 228 125	2 605 641 703	2 928 869 828

Notes to the Accounts

for the financial year ended 31 March 1999

1. Introduction

The Bank for International Settlements (BIS) is an international financial institution which was established pursuant to the Hague Agreements of 20 January 1930. The headquarters of the Bank are in Basle, Switzerland. The objects of the BIS, as laid down in Article 3 of its Statutes, are to promote the cooperation of central banks, to provide additional facilities for international financial operations and to act as trustee or agent for international financial settlements. Forty-five central banks are currently members of the Bank and exercise the rights of representation and voting at General Meetings in proportion to the number of BIS shares issued in their respective countries. The Board of Directors of the Bank is composed of the Governors of the central banks of Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States of America, as well as appointed directors from six of those countries.

The accounts for the financial year 1998/99 are presented in a form approved by the Board of Directors pursuant to Article 49 of the Bank's Statutes.

2. Significant accounting policies

(a) Unit of account and currency translation

The unit of account of the Bank is the gold franc, which is equivalent to US$ 1.941 49… . Article 4 of the Bank's Statutes defines the gold franc (abbreviated to GF) as representing 0.290 322 58… grammes of fine gold. Items representing claims on gold are translated into gold francs on the basis of their fine weight. Items denominated in US dollars are translated into gold francs on the basis of a gold price of US$ 208 per ounce of fine gold (this price was established by the Bank's Board of Directors in 1979, resulting in the conversion factor of 1 gold franc = US$ 1.941 49...). Items denominated in other currencies are translated into US dollars at the spot market rates of exchange prevailing at the balance sheet date, with the resulting US dollar balances converted into gold francs accordingly.

Exchange differences arising on the translation of currency assets and liabilities denominated in currencies other than the US dollar are taken to the valuation difference account.

The net balance resulting from exchange differences on the translation of forward currency contracts and swaps is included under miscellaneous assets or liabilities.

(b) Basis of valuation and determination of profit

Except as otherwise stated, the accounts of the Bank are drawn up on the historical cost basis and income and expense items are recorded on the accruals basis. Profits and losses are determined on a monthly basis, translated into US dollars at the spot market rate of exchange prevailing at each month-end and translated into gold francs as set forth above; the monthly profits thus calculated are accumulated for the year.

Profits and losses arising on the sale of investment securities are taken to the securities equalisation account, which is incorporated within miscellaneous liabilities. Credit balances accumulated in this account are amortised to the Profit and Loss Account over a period corresponding to the average term to maturity of the Bank's investment portfolio; a net debit balance at the year-end would be charged immediately to the Profit and Loss Account.

(c) Gold

Gold assets and liabilities are stated on the basis of their fine weight.

(d) Treasury bills; Government and other securities at term

Treasury bills and Government and other securities at term are stated at cost, plus accrued interest where applicable, adjusted for the amortisation of premiums or discounts over the period to maturity; interest and discount income includes such amortisation.

(e) Time deposits and advances in currencies

Time deposits and advances are stated at their principal value plus accrued interest.

(f) Securities purchased under resale agreements

Securities acquired in connection with purchase and resale agreements are stated at the amount advanced to the counterparty plus accrued interest.

(g) Land, buildings and equipment

With effect from 1 April 1998 the Bank changed its accounting policy to capitalise and depreciate its buildings and equipment on a straight line basis over their estimated useful lives, as follows:

Land – not depreciated.
Buildings – 50 years.
Building installations and machinery – 15 years.
Computer equipment – 4 years.
Other equipment – 4 to 10 years.

(h) Valuation difference account

The valuation difference account records the effect of exchange differences as described under (a); these valuation changes relate essentially to that portion of the Bank's own funds held in currencies other than the US dollar.

(i) Deposits

Deposits are book claims on the Bank and are stated at their principal value plus accrued interest. Certain claims are issued at a discount to the value payable on the maturity of the deposit; in such cases the accounting treatment is analogous to that applied to dated securities held by the Bank (see item (d) above).

(j) Securities sold under repurchase agreements

Securities sold in connection with sale and repurchase agreements are stated at the amount received from the counterparty plus accrued interest.

(k) Provision for banking risks and other eventualities

The Board of Directors sets aside an amount each year to the above provision, which is incorporated in miscellaneous liabilities.

(l) Change of accounting policy in the financial year 1998/99

On 1 April 1998 the Bank's land, buildings and equipment were revalued in the Balance Sheet to their historical cost less accumulated depreciation for the years during which the assets were held. The effect of this change was to increase the value of land, buildings and equipment in the Bank's Balance Sheet by GF 90.9 million; this amount was added to the Bank's reserves (see also the table entitled "Movements in the Bank's paid-up capital and reserves"). In addition, with effect from the financial year 1998/99 the Bank's Profit and Loss Account contains a depreciation charge instead of the previous transfers to specific provisions.

The unspent balances on the provisions for building purposes and modernisation of premises and renewal of equipment were credited in 1998/99 to the provision for exceptional costs of administration.

Notes to the Balance Sheet

for the financial year ended 31 March 1999

1. Gold holdings

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

Assets	*1998*	1999
Gold bars held at central banks	*3 037 168 543*	2 801 471 476
Gold time deposits:		
Not exceeding 3 months	*438 825 618*	274 154 547
Over 3 months	*683 561 094*	803 028 065
	4 159 555 255	3 878 654 088

The Bank's own gold holdings at 31 March 1999 amounted to GF 662.0 million, equivalent to 192 tonnes of fine gold (1998: GF 662.0 million; 192 tonnes).

2. Treasury bills

The Bank's holdings were as follows:

	1998	1999
Book value	*1 863 872 732*	7 314 049 359

The market value of Treasury bills at 31 March 1999 was GF 7 319.2 million (1998: GF 1 863.6 million).

3. Government and other securities at term

The Bank's holdings were as follows:

	1998	1999
Book value	*18 517 072 458*	22 167 845 852

The market value of Government and other securities at term at 31 March 1999 was GF 22 331.4 million (1998: GF 18 623.8 million).

4. Land, buildings and equipment

	Land & buildings	IT & other equipment	Total
Cost:			
Opening balance at 1 April 1998	101 585 513	38 117 021	139 702 534
Capital expenditure	29 925 031	7 793 648	37 718 679
Exchange adjustments	2 377 877	892 230	3 270 107
Cost at 31 March 1999	133 888 421	46 802 899	180 691 320
Depreciation:			
Accumulated depreciation at 1 April 1998	26 665 183	22 173 313	48 838 496
Depreciation charge for the current year	2 069 321	3 947 031	6 016 352
Exchange adjustments	624 169	519 267	1 143 436
Accumulated depreciation	29 358 673	26 639 611	55 998 284
Net book value at 31 March 1999	104 529 748	20 163 288	124 693 036

The cost of the Bank's land at 31 March 1999 was GF 26 610 450 (1 April 1998: GF 19 566 319). During the year the Bank purchased an additional property in Basle which will be used mainly by the Banking Department.

5. Capital

The Bank's share capital consists of:

	1998	1999
Authorised capital:		
600 000 shares,		
each of 2 500 gold francs	*1 500 000 000*	1 500 000 000
Issued capital: 517 165 shares	*1 292 912 500*	1 292 912 500
of which 25% paid up	*323 228 125*	323 228 125

6. Reserves

The Bank's reserves consist of:

	1998	1999
Legal reserve fund	*32 322 813*	32 322 813
General reserve fund	*1 016 326 624*	1 156 441 190
Special dividend reserve fund	*62 530 055*	65 530 055
Free reserve fund	*1 157 345 532*	1 351 347 645
	2 268 525 024	2 605 641 703

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

7. Deposits

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

	1998	1999
Central banks		
Sight	*3 323 820 195*	2 890 343 276
Not exceeding 3 months	*45 283 968 982*	48 100 323 078
Over 3 months	*1 860 469 306*	3 025 353 687
Other depositors		
Sight	*64 627 283*	115 290 764
Not exceeding 3 months	*3 490 403 364*	3 574 471 345
Over 3 months	*252 427*	–
	54 023 541 557	57 705 782 150

8. Off-balance-sheet items

a) Derivatives

In the normal course of business, the Bank is party to off-balance-sheet financial transactions including forward exchange contracts, currency and interest rate swaps, forward rate agreements, futures and options. These instruments are used to hedge the Bank's interest rate and currency exposure on assets and liabilities, and to manage the duration of its liquid assets. The Bank applies the same credit criteria in considering off-balance-sheet commitments as it does for all other investments.

Notional principal amounts

(in millions of gold francs)	*1998*	1999
Exchange rate contracts:		
Foreign exchange swaps and forwards	*12 040.5*	10 470.4
Currency swaps	*2 054.4*	2 796.1
Interest rate contracts:		
Interest rate swaps	*5 689.5*	7 222.0
Forward rate agreements and futures	*4 928.4*	5 987.8

The notional or contracted principal amounts of the various derivatives reflect the degree to which the Bank is active in the respective markets but give no indication of the credit or market risk on the Bank's activities. The gross replacement cost of all contracts showing a profit at prevailing market prices on 31 March 1999 was GF 484.1 million (1998: GF 499.7 million).

b) Fiduciary transactions

Fiduciary transactions are not included in the balance sheet, since they are effected on behalf of and at the risk of the Bank's customers, albeit in its own name.

(in millions of gold francs)	*1998*	1999
Nominal value of securities held in safe custody	*7 660.2*	7 167.8
Gold held under earmark	*930.8*	671.2

c) Staff Pensions System and Savings Scheme

In previous years the liabilities of the Pensions System were set out in the Bank's Balance Sheet under the heading "Staff pension scheme", while those of the Savings Scheme were included within miscellaneous liabilities. On 1 October 1998 new pension regulations came into force, and the assets and liabilities of both schemes were transferred from the Bank's Balance Sheet to two separate funds. These changes were made to modernise the Pensions System and to facilitate the management of the assets of the Pensions System and Savings Scheme separately from the assets of the Bank. The two new funds are similar to trust funds and have no separate legal personality. Their assets are administered by the Bank for the sole benefit of current and former members of staff who participate in the Pensions System and Savings Scheme, and all payments under these schemes are debited to the fund concerned. Certain assets previously earmarked to meet the liabilities of the Pensions System and Savings Scheme, amounting to GF 293.2 million and GF 24.5 million respectively, were transferred to the new funds on 1 October 1998.

The Bank is committed to maintain a minimum coverage ratio of 105% for both funds and remains ultimately liable for all benefits payable under the Pensions System and Savings Scheme. The Bank's share of the contributions to the funds is included in its costs of administration.

At 31 March 1999 the market value of the assets of the Pension Fund amounted to GF 295.5 million, representing a coverage ratio of 127% compared with the latest actuarial value of the fund's obligations. The market value of the assets of the Savings Fund amounted to GF 25.8 million on 31 March 1999, which represents a coverage ratio of 109% compared with the liabilities of the scheme. The first annual accounts of the Pension and Savings Funds will relate to the year ending 30 September 1999.

Report of the Auditors

Report of the Auditors
to the Board of Directors and to the General Meeting
of the Bank for International Settlements, Basle

We have audited the accompanying Balance Sheet and Profit and Loss Account, including the notes thereto, of the Bank for International Settlements. The Balance Sheet and Profit and Loss Account have been prepared by the Management of the Bank in accordance with the Statutes and with the principles of valuation described under significant accounting policies in the notes. Our responsibility under the Statutes of the Bank is to form an independent opinion on the Balance Sheet and Profit and Loss Account based on our audit and to report our opinion to you.

Our audit included examining, on a test basis, evidence supporting the amounts in the Balance Sheet and Profit and Loss Account and related disclosures. We have received all the information and explanations which we have required to obtain assurance that the Balance Sheet and Profit and Loss Account are free of material misstatement, and believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Balance Sheet and Profit and Loss Account, including the notes thereto, have been properly drawn up and give a true and fair view of the financial position of the Bank for International Settlements at 31 March 1999 and the results of its operations for the year then ended so as to comply with the Statutes of the Bank.

PricewaterhouseCoopers AG

Ralph R Reinertsen John K Fletcher

Basle, 27 April 1999

Five-year summary of the Balance Sheet
(in millions of gold francs)

Financial year ended 31 March	1995	1996	1997	1998	1999
Gold					
Held in bars	*4 373.4*	*4 364.2*	*3 547.3*	*3 037.1*	*2 801.5*
Time deposits and advances	*541.8*	*637.3*	*956.7*	*1 122.4*	*1 077.2*
	4 915.2	5 001.5	4 504.0	4 159.5	3 878.7
Cash on hand and on sight account with banks	9.8	9.8	384.4	7.8	8.3
Treasury bills	5 483.1	4 105.7	2 813.4	1 863.9	7 314.0
Time deposits and advances in currencies	42 478.7	37 328.1	42 355.1	34 862.2	32 423.0
Securities purchased under resale agreements	2 988.7	1 652.2	884.2	2 781.0	276.0
Government and other securities at term	9 332.8	10 488.1	15 651.1	18 517.1	22 167.9
Land, buildings and equipment	–	–	–	–	124.7
Miscellaneous assets	19.2	32.8	200.8	258.7	44.5
Total assets	65 227.5	58 618.2	66 793.0	62 450.2	66 237.1
Paid-up capital	295.7	295.7	323.2	323.2	323.2
Reserves *(after allocation of the net profit for the year)*					
Legal reserve fund	*30.1*	*30.1*	*32.3*	*32.3*	*32.3*
General reserve fund	*764.9*	*803.3*	*974.9*	*1 016.3*	*1 156.4*
Special dividend reserve fund	*53.5*	*56.5*	*59.5*	*62.5*	*65.5*
Free reserve fund	*807.0*	*893.6*	*995.1*	*1 157.4*	*1 351.4*
	1 655.5	1 783.5	2 061.8	2 268.5	2 605.6
Valuation difference account	449.5	373.5	351.1	247.2	265.4
Deposits					
Gold	*4 157.0*	*4 245.0*	*3 836.4*	*3 473.7*	*3 192.6*
Currencies	*56 549.0*	*49 649.2*	*57 585.6*	*54 023.6*	*57 705.8*
	60 706.0	53 894.2	61 422.0	57 497.3	60 898.4
Securities sold under repurchase agreements	385.4	376.6	674.8	30.7	121.5
Staff pension scheme	271.0	283.1	252.6	257.0	–
Miscellaneous liabilities	1 411.0	1 558.3	1 658.7	1 773.7	1 965.6
Dividend	53.4	53.3	48.8	52.6	57.4
Total liabilities	65 227.5	58 618.2	66 793.0	62 450.2	66 237.1

Five-year summary of the Profit and Loss Account

(in millions of gold francs)

Financial year ended 31 March	1995	1996	1997	1998	1999
Net interest and other operating income	229.3	254.3	263.8	314.9	370.4
Less: costs of administration					
Board of Directors	*1.2*	*1.5*	*1.3*	*1.3*	*1.3*
Management and staff	*40.2*	*46.6*	*42.9*	*39.4*	*40.9*
Office and other expenses	*17.4*	*18.3*	*16.3*	*15.0*	*18.6*
Depreciation	*–*	*–*	*–*	*–*	*6.0*
	58.8	66.4	60.5	55.7	66.8
Net operating surplus	170.5	187.9	203.3	259.2	303.6
Less: amounts transferred to					
Provision for exceptional costs of administration	*3.4*	*3.5*	*3.0*	*–*	*–*
Provision for modernisation of premises and renewal of equipment	*4.7*	*3.1*	*6.0*	*–*	*–*
	8.1	6.6	9.0	–	–
Net profit for the financial year	162.4	181.3	194.3	259.2	303.6
Dividend	53.4	53.3	48.8	52.6	57.4
	109.0	128.0	145.5	206.6	246.2
Transfer to general reserve fund	32.7	38.4	41.0	41.3	49.2
	76.3	89.6	104.5	165.3	197.0
Transfer to special dividend reserve fund	3.0	3.0	3.0	3.0	3.0
	73.3	86.6	101.5	162.3	194.0
Transfer to free reserve fund	73.3	86.6	101.5	162.3	194.0
	–	–	–	–	–

Board of Directors

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

Lord Kingsdown, London
Vice-Chairman

Vincenzo Desario, Rome
Antonio Fazio, Rome
Edward A J George, London
Alan Greenspan, Washington
Hervé Hannoun, Paris
Masaru Hayami, Tokyo
William J McDonough, New York
Hans Meyer, Zurich
Guy Quaden, Brussels
Helmut Schlesinger, Frankfurt a/M.
Gordon G Thiessen, Ottawa
Hans Tietmeyer, Frankfurt a/M.
Jean-Claude Trichet, Paris
Alfons Verplaetse, Brussels
Nout H E M Wellink, Amsterdam

Alternates

Jean-Pierre Patat or
Marc-Olivier Strauss-Kahn, Paris
Ian Plenderleith or
Clifford Smout, London
Jean-Jacques Rey or
Jan Smets, Brussels
Alice M Rivlin or
Karen H Johnson, Washington
Carlo Santini or
Stefano Lo Faso, Rome
Jürgen Stark or
Helmut Schieber, Frankfurt a/M.

Senior Officials of the Bank

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André Icard	Assistant General Manager
Gunter D Baer	Secretary General, Head of Department
William R White	Economic Adviser, Head of the Monetary and Economic Department
Robert D Sleeper	Head of the Banking Department
Marten de Boer	Manager, Accounting and Budgeting
Renato Filosa	Manager, Monetary and Economic Department
Mario Giovanoli	General Counsel, Manager
Guy Noppen	Manager, General Secretariat
Günter Pleines	Deputy Head of the Banking Department

Printed in Switzerland Werner Druck AG, Basle