Activities of the Bank

This chapter reviews the initiatives taken by the Bank and the committees it hosts during the past year with a view to promoting cooperation among central banks and other financial authorities. It also presents an overview of the financial services offered by the Bank to its central bank customers and concludes with a summary of recent institutional developments. The reports mentioned in this chapter, as well as most of the Bank's research output, are available on the BIS website (www.bis.org) or, on request, in hard copy.

1. Direct contributions of the BIS to international monetary and financial cooperation

Two basic ways in which the Bank seeks to promote cooperation in the monetary and financial area are by organising meetings and by hosting the secretariats of various committees, several of which report directly to the G10 central bank Governors. In this connection, two features already noted in earlier Annual Reports were again in evidence during the period under review. The first is the increasingly global character of participation in the meetings held under the auspices of the BIS, as well as of the themes under discussion. The second is the widening range of financial authorities participating alongside central bankers. In this regard, the Bank is responding to the need to involve all interested parties – including the private sector – in the debate on financial stability.

The promotion of financial stability has also been at the root of a steady expansion of the activities of the secretariats which are located at the BIS but do not report to the G10 Governors. At present, both the Financial Stability Forum (FSF) and the International Association of Insurance Supervisors (IAIS) have their secretariats at the BIS. At its constituent meeting in early May 2002, the International Association of Deposit Insurers also decided to locate its secretariat at the BIS.

The role of the BIS in fostering understanding of supervisory issues among central banks and supervisory authorities has been reflected in a strengthening of the efforts of the Financial Stability Institute (FSI), founded jointly by the BIS and the Basel Committee on Banking Supervision. To address more directly regional central bank needs for cooperation, the activities of the Bank's Representative Office for Asia and the Pacific in Hong Kong SAR have expanded further, while the conclusion of the Host Country Agreement between Mexico and the BIS has paved the way for the opening later this year of a Representative Office for the Americas, which will focus on serving the interests of the central banking community in the western hemisphere. Finally, cooperation with regional central bank associations remained close.

Regular consultations on monetary and financial issues

During the period under review, Governors and senior officials of the BIS member central banks met on a bimonthly basis to analyse economic and financial developments and exchange views on topics of current interest and concern.

Developments in the world economy dominated the discussions in the *Global Economy Meetings* in which the central bank Governors of the main industrial and emerging market economies participate. Important focal points in the past year's meetings were the assessment of economic and financial vulnerabilities in the context of the worldwide economic slowdown, the implications for monetary and financial policies of the tragic events of 11 September 2001, the impact on market functioning of a number of high-level corporate failures, and the Argentine crisis. These topics, as well as matters that had arisen in other meetings, were further discussed in the *meetings of the Governors of the G10 countries*. In addition, the G10 Governors reviewed work in progress in the committees reporting to them and approved for publication several papers drafted by the committees or their working groups (see below). In January 2002, the G10 Governors and heads of banking supervisory authorities met to address a variety of issues related to the completion and subsequent implementation of the New Basel Capital Accord. Two high-level meetings were organised with representatives of major private sector financial institutions, one at the level of Governors and CEOs, and another one at the level of their immediate deputies. Both meetings provided an opportunity to exchange views on the potential implications for financial markets of various recent developments, such as the Argentine crisis, new credit transfer mechanisms, corporate failures and problems in certain sectors.

During the bimonthly gatherings, a meeting attended by all the Governors of BIS member central banks is devoted to discussion of a specific topic. Themes in the past year included the implications of the increasing use of asset prices as information variables for central bank communication strategies and the tactics of monetary policy implementation, the impact of e-finance on monetary policy, capital flows and related policies in emerging market economies, and the macroeconomic and financial issues raised by demographic changes and evolving pension arrangements. In November, Governors devoted the meeting to a review of operational problems and responses in the wake of the events of 11 September.

The bimonthly meetings of the *Gold and Foreign Exchange Committee*, composed of senior officials responsible for market operations in G10 central banks, focused on developments in key money and foreign exchange markets. On several occasions, representatives from major non-G10 economies were invited to join the discussion. The analysis of liquidity and settlement problems following the events of 11 September, the foreign exchange implications of the crisis in Argentina and a review of developments regarding the Continuous Linked Settlement (CLS) Bank were also on the Committee's agenda. In May 2002, the Committee was renamed the *Markets Committee* in order to better reflect the focus of its activities.

Ad hoc meetings on issues of special central bank interest were organised throughout the year, bringing together a broad range of financial sector experts. Major topics were e-finance, fair value accounting and the measurement of, and policy options with regard to, changes in risk through time. During the traditional *Autumn Economists' Meeting*, participants considered the interaction between market functioning and central bank policymaking. The *Spring Economists' Meeting* was devoted to current conjunctural issues.

The Bank continued to organise meetings on matters of particular relevance to emerging market economies. Working parties on monetary policy were held with a special focus on Asia, Latin America and, for the first time, central and eastern Europe. The BIS again convened a special meeting for Deputy Governors of African central banks to discuss monetary policy challenges in their continent. On the occasion of the Bank's Annual General Meeting in 2001, a round table of Governors of the major emerging market economies was held to exchange views on the policy issues for their countries raised by the current world economic situation. Finally, during a two-day meeting in late December, Deputy Governors from emerging market economies considered the question of how to develop domestic debt markets.

Promotion of financial stability through the permanent committees

Basel Committee on Banking Supervision

Over the past year the Basel Committee on Banking Supervision has continued its important work of promoting financial stability by updating and formulating guidance on key banking supervisory issues. Recently, the Committee's most significant and highest-profile initiative has been the development of a new framework for assessing bank capital adequacy. However, the Committee has also continued its efforts to strengthen a variety of prudential supervisory practices in both G10 and non-G10 countries. In these endeavours, it has interacted extensively with other international bodies.

During the period under review, the Committee made significant progress in the development of its new capital adequacy framework for the global banking system. The New Basel Capital Accord will be more sensitive to the level of risk incurred in banks' activities and will be better able to accommodate financial innovation. The new framework will also provide banks with greater incentives to improve their risk measurement and risk management capabilities.

The Committee released its second consultative package on the New Accord in January 2001. Over 200 comments were received in what has been an intensive and ongoing process of dialogue and consultation with the banking industry. In the meantime, a number of working papers have developed the Committee's thinking on some of the most challenging areas of the New Accord and promoted further discussion with the banking industry on these key issues. A priority has been to respond to widely publicised concerns about possible side effects of the New Accord. For example, the Committee has looked at the question of balancing risk sensitivity against complexity and addressed the concern that a more risk-sensitive framework might have the potential to amplify the business cycle. The Committee has also responded to concerns over the impact of the New Accord on small and medium-sized enterprises, and is working to ensure that its implications for these institutions are properly taken into account.

In view of the importance of the New Accord in shaping the global banking industry, the Basel Committee has decided to conduct extensive quality assurance before it issues a final consultative proposal. Three partial surveys of bank portfolios have already been carried out, but the Committee is now preparing a final, comprehensive survey for autumn 2002. In order to allow time for the results to be analysed, the release of a third consultative paper will be deferred until 2003, to be followed by the finalisation of the New Accord the same year. The extension will help ensure that the final version of the Accord meets its objectives.

With the New Accord nearing completion, the Committee has also started to focus on planning for its implementation. The Committee believes that strong support for the efforts of supervisors to implement the new framework will be essential for a successful Accord. This has led to the establishment of an Accord Implementation Group, a forum in which supervisors will be able to share information and approaches related to the implementation of the New Accord.

One of the main aims of the Basel Committee is to promote better supervisory standards across the world's financial system. This objective is pursued via the maintenance of links with supervisors, the publication of policy papers, the sponsorship of and participation in conferences, and training efforts. Recent Committee publications include guidance for the management of operational risk and principles for risk management in e-banking. Responding to an issue highlighted by the FSI's contacts with non-G10 supervisors, the Committee published a paper in 2001 setting out the essential elements of memoranda of understanding that could be used as a reference for establishing bilateral relationships between banking supervisory authorities in different countries. At the request of the FSF, the Committee led a study by a working group of supervisors from around the world, whose report contains guidance on dealing with weak banks. The report draws on the experiences of many different countries in dealing with weak banks and is intended to be applicable to all categories of banks and banking systems.

The Committee's Accounting Task Force has issued policy and guidance documents on important accounting and auditing issues, including the role of internal audit in banks and the relationship between banking supervisors and banks' external auditors. Moreover, the Committee prepared for the FSF an analysis of banks' credit exposures to weak sectors of the economy, in particular telecommunications and the sectors most affected by the events of 11 September 2001.

The Committee has also recently outlined a series of steps it intends to take in support of the international effort to combat the financing of terrorism. It has been reviewing the experiences of banking supervisors and other authorities to see whether impediments exist to the exchange of information on terrorist financing and, if so, what measures need to be taken. The Committee is also acting to ensure that efforts towards the worldwide adoption of the standards set out in its report *Customer due diligence for banks* are sustained.

The Basel Committee continues to work closely with a wide range of non-member countries in developing more robust supervisory arrangements. Its Core Principles for Effective Banking Supervision, the accepted international standard, are being progressively implemented and over 60 countries have now conducted voluntary assessments under the joint IMF-World Bank Financial Sector Assessment Programs. The Committee's Core Principles Liaison Group, with members from 15 emerging market countries, oversees this process and its subgroup on capital is making a valuable contribution to the development of the New Capital Accord. Individual experts from non-G10 supervisory authorities serve on a number of the Committee's expert working groups. Emerging market supervisory cooperation takes place at the regional level and the Basel Committee has continued to participate actively in the meetings and conferences of regional groups of supervisors, as well as providing continuous technical assistance through the FSI. Finally, the Committee is sponsoring the 12th International Conference of Banking Supervisors, which will be held in Cape Town, South Africa, later this year. Delegates from about 130 countries normally attend. The conference discussions will focus on the New Capital Accord and on how to promote a stable financial environment in emerging market countries.

Committee on the Global Financial System

The Committee on the Global Financial System (CGFS) continued to monitor financial markets with the objective of identifying potential sources of vulnerability. Particular attention was paid to the interaction between the real economy and financial markets in the course of the economic downturn. In this connection, one topic of recurring interest concerned evidence on how effectively the financial system had been able to disperse risk emanating from various elements of the information technology sector. The Committee also monitored financial markets' reaction to a number of extraordinary events which occurred last year. The resulting assessments were shared with the broad official community through the Committee's participation in the work of the FSF. Finally, the CGFS followed up on previous work and published several reports.

In April 2001, the report entitled *A survey of stress tests and current practice at major financial institutions* was published. The study was initiated to gain insights into the role of stress testing in risk management and to identify which exceptional events were considered to be significant risks. In turn, summaries of the report were published by a number of central bank members of the Committee as part of their own efforts to provide information on the current state of development of risk management practices. In June 2001, the CGFS discussion note *Structural aspects of market liquidity from a financial stability perspective* was posted on the Committee's page on the BIS website. Also in June, as a follow-up to its published report *Collateral in wholesale* *financial markets: recent trends, risk management and market dynamics*, the CGFS organised a workshop attended by participants from central banks and the private sector.

The working group report *IT innovations and financing patterns: implications for the financial system* was published in February 2002. The report emphasises the potential of information technology to act as a catalyst for a fundamental restructuring of economic activity both within and outside the IT sector and to change the risk-reward profile of firms. It analyses the implications of these developments for the design of financial contracts, for firm valuation and risk management, and for risk allocation.

The CGFS also embarked on new projects. In September 2001, the Committee set up two new working groups, one on credit risk transfer and the other on incentive structures in institutional asset management. The two groups are expected to produce their final reports by the end of this year.

In March 2002, the CGFS acted as host at the BIS to a group of practitioners, researchers and central bankers at the Third Central Bank Research Conference on Risk Measurement and Systemic Risk. The conference was organised in cooperation with the Bank of Japan, the Federal Reserve Board and the ECB. Its focus was on questions relating to risk measurement and systemic risk from a central bank perspective. Particular emphasis was placed on the nature and sources of market liquidity, recent advances in risk measurement methods, sources of banking crises, and contagion effects across markets and regions.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems (CPSS) pursued its efforts to promote safe and efficient payment and settlement systems, cooperating in many cases with other international institutions and groupings. Throughout, the Committee involved a large number of non-G10 central banks in its work.

In November 2001, the CPSS and the Technical Committee of the International Organization of Securities Commissions (IOSCO) published the final report on the Recommendations for Securities Settlement Systems. The publication follows the release of a consultative report in January 2001 and a public consultation period which ended in April 2001. The report will be supplemented by an assessment methodology, which is expected to be finalised later this year. The IMF and the World Bank are participating in the preparation of this methodology, which is intended as a tool for their joint Financial Sector Assessment Programs as well as for self-assessments.

The objective of this most recent joint initiative by the CPSS and IOSCO is to promote the implementation by securities settlement systems of measures that can reduce risks, increase efficiency and provide adequate safeguards for investors through its recommendations for the design, operation and oversight of such systems. The recommendations cover both individual systems and the cross-border linkages between systems. As with the Core Principles for Systemically Important Payment Systems, which the CPSS published last year, this report contributes to the international efforts to address vulnerabilities in the international financial system, and is included in the body of relevant standards and codes identified by the FSF.

In the area of retail payments, the CPSS Working Group on Retail Payment Systems continued to identify and analyse recent trends in such instruments and systems and examine the particular policy concerns to which they might give rise. In addition, the Committee continued to monitor global developments in electronic money products and their potential policy implications. The Committee's latest survey, published in November 2001, provides information on the e-money products which are in use or being planned in about 80 countries or territories. It also contains information on the policy stance adopted by the relevant authorities, including central banks.

An important aspect of the Committee's ongoing work remains the implementation of its strategy, endorsed by the G10 Governors in 1996, to reduce foreign exchange settlement risk. To this end, the Committee continued to monitor and encourage private sector initiatives in this area.

The CPSS pursued its efforts to strengthen cooperation with central banks outside the G10, particularly those of emerging market economies. In collaboration with the central banks concerned, the CPSS Secretariat prepared reference studies on payment systems in a number of countries. The Committee also provided support and expertise to workshops and seminars on payment system issues organised by the BIS in cooperation with regional central banking organisations.

Representative Office for Asia and the Pacific

Since its inauguration in July 1998, the Representative Office for Asia and the Pacific (the Asian Office) has undertaken a range of activities to foster information exchange and cooperation among central banks in the region, and between regional central banks and central banks in the rest of the world. The opening of a Regional Treasury dealing room in October 2000 further enhanced the role of the Asian Office by providing banking services to central banks during trading hours in the Asian time zone.

In early 2001 the Asian Consultative Council (ACC) was created, with secretariat services being provided by the Asian Office. The first meeting of the ACC was held in Basel in June 2001 and the second in Hong Kong in February 2002. The ACC provides a vehicle for communication between the regional central banks and the Board and Management of the BIS and, in doing so, gives guidance regarding the Bank's activities in the region.

During the period under review, the Asian Office hosted and supported a series of high-level meetings in Hong Kong. The fourth Special Meeting of Asian central bank Governors was held in February 2002 and offered an opportunity to review the current economic situation and discuss exchange rate management in Asia. In addition, a number of expert meetings were organised. In April 2001, a meeting on monetary policy operating procedures brought together central bank practitioners from within and outside the region to discuss the operational aspects of monetary policy. In December 2001, internal auditors of regional central banks met for the second time to discuss various issues of mutual interest. The Office also hosted an ad hoc meeting of foreign exchange managers on the CLS Bank.

The Asian Office has actively cooperated with regional groupings of central banks. In July 2001, it co-hosted with the Monetary Authority of Singapore a joint meeting of the EMEAP (Executives' Meeting of East Asia-Pacific Central Banks) Forum and the Gold and Foreign Exchange Committee. In March 2002, the Office hosted the EMEAP Forum, bringing together regional experts on the implementation of foreign exchange policy with their counterparts at major central banks outside the region.

The Office has contributed to the Bank's financial and economic research on Asia and the Pacific, as well as to regional central bank publications. It has also provided expertise to various meetings organised by regional central banking groups and individual central banks, in particular on the New Basel Capital Accord.

Financial Stability Institute

The FSI strives to assist financial sector supervisors globally in implementing sound supervisory standards. It provides financial sector supervisors with an opportunity to gain in-depth knowledge of supervisory techniques and learn about the latest supervisory developments, as well as encouraging an ongoing exchange of views within the global supervisory community. The Institute fulfils its mandate by a variety of means, in particular through the design and delivery of focused seminars and regional workshops for financial sector supervisors around the world. Its work to date has concentrated on banking issues. However, the FSI recently agreed to take charge of 10 of the annual training events of the International Association of Insurance Supervisors, commencing in mid-2002.

Over the past year, the FSI organised 10 focused seminars in Basel and 23 regional workshops held jointly with regional groups of supervisors. These seminars and workshops covered a variety of topics chosen after consultation with regional supervisory groups and supervisors from a wide range of countries. The topics included risk management (credit, market, liquidity, etc), bank licensing, risk-focused supervision, corporate governance, consolidated supervision, problem bank resolution and measures to counter money laundering. The FSI continues to place special emphasis on providing supervisors around the world with a better understanding of the proposed changes to the Basel Capital Accord. This effort will be maintained through the implementation phase for the New Accord. The FSI also held nine special seminars, including a joint event with the IMF and World Bank on the legal aspects of financial stability, and several on risk management for insurance supervisors. Almost 1,400 representatives of supervisory agencies from around the world have participated in FSI events in the past year.

Staff of the Institute also made presentations on a broad range of topics at various non-FSI conferences, including those held by regional development banks, and annual meetings of regional groups of supervisors in order to reach out on relevant issues and to be in continuous contact with supervisors and other financial industry experts worldwide. Cooperation with other institutions providing programmes of assistance to supervisors is also an important part of the FSI's work. It therefore collaborates with such organisations as the Toronto Centre, the IMF Institute, the World Bank and regional development banks. The FSI also supports the commitment of the BIS to the Joint Vienna Institute.

An important objective of the FSI has been to provide senior supervisors with information on supervisory developments and key issues affecting banking supervision. It instituted the *FSI Occasional Papers* series in which leading experts and academics write about topics of interest to financial sector supervisors. Two papers have so far been issued in this series. The Institute also continues to publish a quarterly newsletter, *FSI World*, for heads of supervision and other senior supervisors.

2. BIS contributions to broader international financial cooperation

Group of Ten

The Bank contributed to work undertaken by the G10 Finance Ministers and central bank Governors, their Deputies and the working groups set up under their auspices, both by participating as an observer institution and by providing secretariat support alongside the IMF and the OECD. Over the past year, the G10 continued to analyse issues relating to the operation of the international financial system. It examined the question of debt sustainability and set in train focused work on sovereign debt resolution mechanisms, centring on contractual issues, in particular collective action clauses. This work will be carried out in an open fashion, in cooperation with other forums dealing with these issues. A contact group prepared a draft report on how structural factors such as tax, regulatory and disclosure policies interact to affect asset prices. Another contact group explored insolvency arrangements and contract enforceability in the major financial jurisdictions. It is seeking to identify policy issues raised by the ongoing integration of the international capital market and the lagging evolution of national insolvency arrangements.

Financial Stability Forum

The FSF was established in early 1999 to promote international financial stability through enhanced information exchange and cooperation in financial supervision and surveillance. It is the only forum which brings together on a regular basis senior representatives from international financial institutions (including the BIS), international groupings of regulators and supervisors, committees of central bank experts, and national authorities responsible for financial stability in significant international financial centres. Detailed information on the FSF, its membership and activities is available on its website (www.fsforum.org).

A key activity of the FSF is to exchange views and pool information on vulnerabilities in the financial system at its biannual meetings. During the year under review, members considered the impact of an unprecedented confluence of shocks on the soundness of financial systems and institutions. They concluded that, despite the many strains, most financial systems had displayed significant resilience. However, members also agreed that the interaction of the prospect of only a mild recovery in global activity and continued financial imbalances called for ongoing vigilance and supervisory cooperation.

The FSF also discussed issues arising from the large corporate failures which had occurred during the period under review. While the direct causes of these failures were bad business judgments, and possibly fraud, they revealed weaknesses in the system of internal and external checks and balances on which public confidence in financial markets relies. Key goals highlighted in this discussion included improved corporate governance, accounting and auditing reforms, enhanced public disclosure and external surveillance practices, and better monitoring of financial market dynamics. Noting that a good deal of work was already being undertaken by national authorities and international regulatory bodies, members felt that the FSF was well placed to facilitate coordination to increase the effectiveness and avoid duplication of this work.

The FSF took stock of progress in efforts to combat the financing of terrorism, acknowledging the important work being done by national authorities, the Financial Action Task Force, the IMF and World Bank and standard-setting bodies. The FSF will provide a report to the G7 and G20 on these efforts.

Within the context of its regular monitoring exercises, the FSF discussed operational issues that arose in financial markets in the context of the events of 11 September 2001, and lessons drawn for contingency arrangements. The FSF also welcomed the establishment of a Crisis Management Contact List (CMCL) to facilitate crisis management. Issued in March 2002, the CMCL covers central banks, supervisory and regulatory agencies, finance or treasury departments in over 30 countries and key international financial institutions and global service providers.

In reviewing progress made in addressing earlier concerns, the FSF welcomed efforts by some offshore financial centres (OFCs) to strengthen their supervisory, regulatory, information sharing and cooperation practices, but noted that others were lagging behind. The FSF will regularly review progress by OFCs and draw attention to those OFCs that give cause for serious concern. It will also point out positive developments by OFCs as a model for others.

At its meeting in March 2002, the FSF agreed that market developments and improvements in counterparty risk management practices had lessened the risks that highly leveraged institutions pose for the international financial system. However, members underscored the need to guard against complacency, and encouraged the Basel Committee and IOSCO to repeat at a future stage a review of counterparty risk management and regulatory oversight practices.

The FSF has continued its regional outreach meetings to promote discussion among FSF members and non-members on financial sector vulnerabilities and to enable non-members to inject their perspectives on the FSF's work. Since publication of the last Annual Report outreach meetings have been held for the Asia-Pacific region, central and eastern Europe, and Latin America (with the participation of Spain and South Africa).

International Association of Insurance Supervisors

The BIS has hosted the Secretariat of the IAIS since the Secretariat's establishment in January 1998. Similar to the Basel Committee on Banking Supervision, but directed at insurance supervision, the IAIS aims at contributing 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.

In collaboration with other international regulatory bodies (in the framework of the Joint Forum of the Basel Committee, IOSCO and the IAIS), the IAIS has also helped develop principles for the supervision of financial conglomerates. Moreover, the IAIS actively participates in the FSF.

To date, the IAIS has issued several sets of principles and guidance, including the Insurance Core Principles, the Insurance Concordat and Guidance on Insurance Regulation and Supervision for Emerging Market Economies, as well as a wide range of papers setting out supervisory standards in the insurance area. During the past year the IAIS finalised the Principles on Capital Adequacy and Solvency, the Supervisory Standard on the Evaluation of the Reinsurance Cover of Primary Insurers and the Security of their Reinsurers, the Supervisory Standard on the Exchange of Information, the Guidance Paper on Public Disclosure by Insurers, and Anti-Money Laundering Guidance Notes for Insurance Supervisors and Insurance Entities. Ongoing work includes formulating standards in the areas of solvency (capital adequacy) requirements, supervision of insurance liabilities, insurance accounting, securitisation, supervision of reinsurers, market risk, electronic commerce and disclosure. In addition, a major project has been launched to revise the Insurance Core Principles and Methodology.

The IAIS again organised numerous training programmes and provided training materials for insurance supervisors in order to help members comply with IAIS supervisory standards. As noted above, the FSI will in future take charge of a number of training initiatives in the area of insurance. Regional training seminars for insurance supervisors were held in Africa, Asia, central and eastern Europe, Latin America and offshore jurisdictions.

3. Other areas of central bank cooperation

Central bank governance

The objective of the work on central bank governance undertaken by the BIS is to provide information on institutional and organisational questions of interest to central banks. These activities are overseen by the Central Bank Governance Steering Group and are conducted through the Network on Central Bank Governance. The Steering Group comprises eight Governors from a broadly based and representative range of central banks. The network currently spans about 40 major central banks and monetary authorities around the world. Based on the advice of the Steering Group, the Bank seeks to respond to requests from central banks that are critical for the effective operation of independent and accountable monetary authorities. During the year, demand for governance information increased. One area of particular interest related to legal provisions regarding the independence and accountability of central banks. Another source of demand was for information about the ongoing efforts of a large number of central banks to enhance their efficiency and effectiveness.

Cooperation on statistical issues

The BIS pursued its active cooperation with central banks and other international organisations on various statistical issues. At present, central banks from more than 30 countries collect and share with the BIS comprehensive statistics on the international lending and borrowing activities of banks in their jurisdiction. In response to recommendations by the CGFS, the BIS and the reporting central banks last year developed an implementation plan for improving the measurement of commercial banks' consolidated country risk exposures on a so-called ultimate risk basis, that is, with risk positions reallocated to the country in which the ultimate guarantor of a financial claim resides. The intention is to provide, as from 2004, more detailed and comprehensive data on country risk exposures, including off-balance sheet positions relating to banks' derivatives transactions.

During the past year the BIS coordinated the fifth Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity, which covered about 50 financial centres. Preliminary results on foreign exchange and derivatives turnover were published in October and on amounts outstanding of over-the-counter derivatives in December 2001. A report analysing the detailed final results was released in March 2002.

The BIS continued to cooperate in the joint BIS-IMF-OECD-World Bank statistics on external debt. This exercise was initiated following the Asian financial crisis to compile quarterly data on the main components of external debt of emerging market countries on the basis of creditor data collected by these international organisations. As these data can differ, in some cases significantly, from those collected by the debtor countries themselves, the BIS undertook a study to identify the major gaps between the creditor and debtor data. A particular focus was in the area of short-term debt (falling due within one year). Some 30 central banks from emerging markets provided data and information for this study. The BIS also assisted in the development by the IMF of a comprehensive guide for the compilation of external debt statistics by debtor countries.

As in the past, the BIS provided data bank services to participating central banks (currently 23) for the electronic exchange of a broad set of economic, monetary and financial statistics. Efforts were concentrated on broadening the geographical and topical coverage of the BIS Data Bank. Nine central banks from emerging markets recently agreed to join the exercise. As a result of several initiatives to broaden the topical coverage of the Data Bank, a significant amount of additional statistical information was made available to economists and statisticians in participating central banks. The detailed information from the BIS international financial statistics is also made available in electronic form through the Data Bank.

Following a request from the Data Bank participants to foster greater international cooperation on electronic standards for the exchange of statistical information, the BIS worked closely with the IMF, OECD, UN, ECB and Eurostat to launch a new initiative on Statistical Data and Metadata Exchange (SDMX). The first workshop, hosted by the IMF, brought together more than 100 experts from central banks and national statistical institutes from around the world to address a range of topics associated with emerging web-based information exchange standards. A few months later the internet website www.sdmx.org was launched, showcasing the insights provided by speakers from within the national, regional and international statistical community, e-standards organisations and private industry consortia.

Cooperation with regional central bank groupings

The BIS continued to support central bank cooperation in various parts of the world within existing regional central bank associations. Active cooperation was maintained with CEMLA (Centro de Estudios Monetarios Latinoamericanos), EMEAP (Executives' Meeting of East Asia-Pacific Central Banks), GCC (Gulf Cooperation Council), MEFMI (Macroeconomic and Financial Management Institute of Eastern and Southern Africa), SADC (Southern African Development Community) and SEACEN (South-East Asian Central Banks). Cooperation largely took the form of participation in meetings arranged by these groups and the organisation of an occasional joint meeting or workshop. Last year, the BIS and other international organisations assisted various regional central bank groups in organising workshops on how central banks' public websites could be designed and maintained in order to strengthen the transparency of central bank activities.

As previously, the BIS assisted the central banks of the major industrialised countries in the coordination of their technical assistance and training for central banks of central and eastern Europe, the Commonwealth of Independent States and some Asian economies in transition. To facilitate coordination, the BIS maintains a database on the technical assistance and training provided to the above-mentioned countries in transition. Regular meetings are also organised that bring together officials of the donor and recipient central banks concerned, as well as the IMF and the ECB. Last year the meeting with the CIS countries was hosted by the Central Bank of the Russian Federation.

The BIS continued to support the Joint Vienna Institute (JVI), in close cooperation with the FSI and the Basel-based groups, by staging a number of seminars for central banks from transition economies on topics relating to monetary and financial stability. The Austrian authorities and the IMF recently agreed to continue the operation of the Vienna training facility after the current JVI agreement terminates in 2004. The BIS remains committed until then but will no longer formally participate in the JVI after that date.

Communicating over the internet

A new-look BIS website was launched in March 2001. Improved design and structure allow users to efficiently navigate, browse and search for information. All Basel-based groups make active use of this facility. In particular, the Basel Committee on Banking Supervision last year posted some 200 comments it had received on its second consultative paper for a new capital adequacy framework. Through the workshops organised by regional central banking groups the BIS has built up an extensive network of central bank website experts, who have assisted in developing and maintaining the links which the BIS website provides to most central banks around the world. They have also shared information and discussed major new developments, for instance with respect to the dissemination of central bank statistics over the internet. Finally, last year the BIS developed a web-based infrastructure to allow participants in BIS activities and events to access and exchange information through the internet in a secure and convenient way.

Group of Computer Experts

The Netherlands Bank hosted the 10th Automation Conference and spring meeting of the Group of Computer Experts in June 2001. Held every three years, the Automation Conference provides the Computer Experts with an opportunity to discuss in detail important central bank IT issues. Presentations and discussions at this conference focused on four topics: IT strategy and the process of IT strategy formulation; the technical and cultural challenges of information management; implementation of infrastructure and applications using internet technology; and the issue of increasing complexity in central bank IT environments.

An important topic for the Group and its Working Party on Security Issues (WPSI) during the past year was the examination of the implications of the events of 11 September 2001 for central bank business continuity planning. At the Group's November meeting, participants each made a special report on the consequences for their organisation.

Central banks are increasingly making use of the internet and internet technology to interact with the outside world. However, use of this technology clearly entails information security risks. During the past year the Computer Experts and the WPSI placed considerable emphasis on sharing information concerning both the organisational and the policy aspects of IT security, as well as the many technical safeguards that can be employed. An illustration was the review by a WPSI task group of the issue of the complexity of public key infrastructure.

Central Bank Counterfeit Deterrence Group

The Central Bank Counterfeit Deterrence Group (CBCDG) is mandated by the Governors of the G10 central banks to examine the threat to paper currency caused by the increasing use of personal computers in counterfeiting banknotes. The basic elements of the technology to deter PC-based counterfeiting have been developed over the past three years and the Group has begun soliciting support from, and cooperating with, equipment manufacturers and software developers to facilitate the adoption of this technology. The BIS supports the work of the CBCDG by hosting its Secretariat and by acting as its agent in contractual arrangements.

4. Functions as Agent and Trustee

Trustee for international government loans

The Bank continued to perform its functions as Trustee for the funding bonds 1990–2010 of the Dawes and Young Loans during the year under review (for details on the Bank's functions in this regard see the 63rd Annual Report of June 1993). With regard to these funding bonds, the Deutsche Bundesbank as Paying Agent notified the Bank that in 2001 the Bundesschuldenverwaltung (BSV – German Federal Debt Administration) had arranged for payment of a total amount of approximately DM 7.9 million and €1.12 million in respect of redemption and interest. Redemption values and other details were published by the BSV in the Bundesanzeiger (Federal Gazette).

The Bank maintained its reservations regarding the application by the BSV of the exchange guarantee clause for the Young Loan (stated in detail in its 50th Annual Report of June 1980), which also extend to the funding bonds 1990–2010.

Collateral Agent functions

Under a number of agreements, the BIS acts in the capacity of Collateral Agent to hold and invest collateral for the benefit of the holders of certain foreign currency denominated bonds issued by countries under external debt restructuring arrangements. Current Collateral Pledge agreements include those for Brazilian bonds (described in detail in the 64th Annual Report of June 1994), Peruvian bonds (see the 67th Annual Report of June 1997) and Côte d'Ivoire bonds (see the 68th Annual Report of June 1998).

5. Operations of the Banking Department

At 31 March 2002 the Balance Sheet stood at 87,714 million gold francs,[1] a new record for the end of a financial year and an increase of 15.3% over the previous financial year-end record of 76,054 million registered 12 months earlier.

[1] The gold franc referred to in this chapter is equivalent to 0.29032258… grams of fine gold – Article 4 of the Statutes. Assets and liabilities are converted to gold francs on the basis of a gold price of US$ 208 per fine ounce (equivalent to 1 gold franc = US$ 1.94149…).

Last summer, the Balance Sheet was already well above levels for the previous financial year but a major inflow of funds following the events of 11 September 2001 brought the total to a new record of 89,894 million gold francs on 25 September. A decline over the next few weeks was largely offset by new inflows ahead of the year-end, to the extent that the Balance Sheet almost equalled the record level reached in September. A modest contraction ensued in the first quarter of 2002 but this was far less pronounced than in previous financial years.

Liabilities

On 31 March 2002 borrowed funds in gold and currencies (excluding repurchase agreements) totalled 82,018 million gold francs, compared with 70,117 million at the end of the previous financial year. Gold deposits shrank by 311 million gold francs to 2,531 million, representing 3.1% of total borrowed funds (down from 4.1% a year earlier). Currency deposits, on the other hand, increased by 12,212 million gold francs (excluding repurchase agreements) over the financial year. Indeed, for the year as a whole, the daily average volume of borrowed currencies was 16% higher than in the previous financial year. To some extent, this development reflects higher business volumes from Asian customers, who now deal increasingly through the trading room opened in the BIS Representative Office in Hong Kong SAR in October 2000.

The expansion in borrowed currencies during the past financial year largely arose from growth in US dollar placements, mainly in BIS tradable instruments but also in fixed-term deposits. The US dollar constituted 69.2% of total borrowed funds in currencies (including repurchase agreements) on 31 March 2002, compared with 66.9% a year earlier. Despite a modest increase in the volume of euro-denominated placements, the share of the euro in total borrowed funds on the same basis fell over the year from 20.7% to 18.6%.

Currency deposits by central banks and other monetary authorities rose from 64,687 million to 76,228 million gold francs, representing 95.9% of total borrowed funds in currencies (excluding repurchase agreements) at end-March 2002, little changed from 96.2% the previous year. Funds placed by other depositors (mainly international institutions) amounted to 3,258 million gold francs. Although there was a continuing trend for BIS customers to lengthen the average maturity of their placements and accept more market rate risk in return for higher yields, there was a tendency in the second half of the financial year for some customers to shorten the duration of their BIS investments in anticipation of a rise in global interest rates.

Assets

Funds deposited with the BIS are placed in the market, for the most part in the form of investments with top-quality commercial banks of international standing and purchases of short-term government securities. The BIS also grants short-term credits to central banks, usually on a collateralised basis. Credit exposure, maturity transformation and market risk arising from the Bank's financial operations in Basel and Hong Kong are rigorously monitored by a separate risk control unit reporting directly to the Deputy General Manager. Particular care is taken to ensure that liquidity is sufficient at all times to respond effectively to customers' cash requirements, whether foreseen or unforeseen.

Investments in currencies stood at 83,690 million gold francs on 31 March 2002, compared with 71,636 million a year earlier. This total included 124 million gold francs in the form of advances to central banks, against 210 million a year earlier. The Bank's assets in gold fell from 3,521 million gold francs to 3,210 million over the same period, 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 by the governments of the major industrial countries, though there has been some diversification into top-rated credit products and securities issued by international institutions.

The BIS also makes use of various derivative instruments with a view to managing its own funds more efficiently and hedging risks on its borrowed funds (see note 10(a) to the Accounts). For the most part, these derivative instruments are of the plain vanilla variety, in particular futures and interest rate swaps.

6. Net profits and their distribution

The accounts for the 72nd financial year ended on 31 March 2002 show a net profit of 225.7 million gold francs, compared with 271.7 million gold francs for the preceding financial year. Substantial book losses were realised in the Bank's borrowed funds operations, because central bank customers continued to manage their portfolios of BIS instruments actively in a context of falling interest rates and hence rising market values of their claims on the BIS. In economic terms, these losses were offset by unrealised gains on the assets and off-balance sheet operations serving as counterparts to the borrowed funds. However, in conformity with the Bank's current accounting policies, these unrealised gains are only recognised in the Profit and Loss Account over time, according to the maturity of the claims concerned. Excluding these factors, underlying profits from borrowed funds operations were slightly lower than last year, with the additional income from the substantial growth in customer deposits being marginally outweighed by the effect of narrowing intermediation margins. Interest income from own funds investments fell slightly, because the repurchase of shares in January 2001 reduced the volume of the Bank's own funds. The environment of lower interest rates led to realised capital gains on the Bank's investment portfolio and an increased contribution from the securities equalisation account. Finally, the Board of Directors decided that, as the current level of the provision for banking risks and other eventualities was sufficient, a transfer to that provision was not necessary.

This year's result is shown after deduction of 67.4 million gold francs in respect of costs of administration, including depreciation, compared with the preceding year's figure of 67.0 million gold francs, an increase of less than 1%. In terms of Swiss francs, the currency in which most of the Bank's expenditure is incurred, the increase in the costs of administration was also below 1%. Within this category, depreciation rose by 8% in Swiss francs (and also by 8% in gold francs) as a result of the Bank's continuing investment in IT and other equipment.

On the basis of Article 51 of the Statutes, it is proposed that the net profit of 225.7 million gold francs be applied by the General Meeting in the following manner:

(i) 52.6 million gold francs in payment of a dividend of 380 Swiss francs per share. It should be noted that the dividend will be paid on 452,073 shares. The number of issued and paid-up shares before the repurchase of shares is 529,125. Of these shares, 77,052 are held in treasury, comprising 74,952 shares repurchased from former private shareholders and central banks and 2,100 other shares. No dividend will be paid on shares held in treasury;

(ii) 26.9 million gold francs to be transferred to the general reserve fund;

(iii) 3.0 million gold francs to be transferred to the special dividend reserve fund; and

(iv) 143.2 million 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.

The Board of Directors has proposed that the above-mentioned dividend be paid on 15 July 2002 to the shareholders whose names are contained in the Bank's share register on 31 March 2002.

The Bank's accounts have been duly audited by PricewaterhouseCoopers AG, who have confirmed that the Balance Sheet and the Profit and Loss Account, including the notes thereon, give a true and fair view of the Bank's financial position at 31 March 2002 and of the results of its operations for the year then ended. Their report is to be found immediately following the accounts.

7. Share capital of the BIS

Withdrawal of privately held shares

Following the decision taken by the Extraordinary General Meeting of the Bank held on 8 January 2001 to withdraw all privately held shares of the BIS (described in detail in the 71st Annual Report of June 2001, pages 172–3), compensation payment of 16,000 Swiss francs per share had, by end-April 2002, been released for more than 99% of the shares concerned. The Bank is pursuing its efforts to contact the remaining former private shareholders who have not yet claimed compensation.

Certain former private shareholders are contesting the conditions of the withdrawal, in particular the amount of compensation paid for their shares. The Bank has requested that all such claims be referred to the Arbitral Tribunal provided for by the Hague Agreement, before which arbitrations are currently proceeding. Pursuant to Article 54 of the Statutes of the Bank, this Arbitral Tribunal has sole jurisdiction to hear disputes between the Bank and its former private shareholders arising from the withdrawal. Actions initiated by former private shareholders in national courts in the United States have been dismissed or stayed pending proceedings before the Arbitral Tribunal, and the Bank is seeking the same relief in an action by former private shareholders in a national court in France.

Division of the Yugoslav issue of the Bank's capital

Following agreement reached with the five successor states to the former Socialist Federal Republic of Yugoslavia and their respective central banks, it was decided at an Extraordinary General Meeting of the Bank held on 11 June 2001 to cancel the original Yugoslav issue of the capital of the Bank and to issue an equivalent number of new shares, to be divided among the Central Bank of Bosnia and Herzegovina, the Croatian National Bank, the National Bank of the Republic of Macedonia, the Bank of Slovenia and the National Bank of Yugoslavia. Simultaneously, it was decided to cancel the shares which had been provisionally issued in 1997 to four of these central banks (see the 68th Annual Report of June 1998, page 184). As a consequence of these operations, the issued capital of the Bank was reduced from 529,165 to 529,125 shares.

8. Changes in the Board of Directors

On 28 February 2002 the term of Urban Bäckström, Governor of Sveriges Riksbank, as Chairman of the Board of Directors and President of the Bank came to an end. At its meeting in January 2002, the Board elected Nout H E M Wellink, President of the Netherlands Bank, as Chairman of the Board and President of the Bank for a period of three years commencing on 1 March 2002.

In March 2002, Sir Edward George, Governor of the Bank of England, reappointed Lord Kingsdown as a member of the Board of Directors for another period of three years, expiring on 6 May 2005. At the same meeting, the Board re-elected Lord Kingsdown as Vice-Chairman of the Board for the new period of his term of office, ending on 6 May 2005, and Urban Bäckström as a member of the Board for a further term of three years, ending on 31 March 2005.

There were two changes amongst the first Alternates of ex officio Directors. Jean-Claude Trichet, Governor of the Bank of France, appointed Marc-Olivier Strauss-Kahn from December 2001 to succeed Jean-Pierre Patat, and Sir Edward George nominated Paul Tucker from June 2002 in place of Ian Plenderleith.

There were no changes in the Management of the Bank during the financial year 2001/02.

The Board of Directors recalled with deep regret, at its meeting in January 2002, the death of Jelle Zijlstra on 23 December 2001 at the age of 83. Mr Zijlstra served on the Board from July 1967 to December 1981 and guided the BIS during this period as its President and Chairman of the Board.

The Bank was also saddened to hear of the death of two former members of its senior management. Maurice Toussaint, who joined the Bank in 1971 and was a Manager in the Banking Department until his retirement in 1986, died on 5 June 2001 at the age of 80. Antonio d'Aroma died on 5 June 2002 at the age of 90; Mr d'Aroma joined the Bank as Secretary General in 1962 and was appointed Assistant General Manager on 1 January 1975. He retired from the Bank in September 1978.

Balance Sheet and Profit and Loss Account

at 31 March 2002

Balance Sheet at 31 March 2002

(in millions of gold francs – see note 2(a) to the Accounts)

2001	Assets	2002
	Gold	
2 195.3	Held in bars	*1 910.3*
1 325.8	Time deposits and advances	*1 299.6*
3 521.1		3 209.9
20.3	Cash on hand and on sight account with banks	3 292.3
4 597.8	Treasury bills	9 588.1
	Time deposits and advances in currencies	
27 894.8	Not exceeding 3 months	*28 435.1*
16 901.6	Over 3 months	*17 102.9*
44 796.4		45 538.0
	Securities purchased under resale agreements	
3 882.0	Not exceeding 3 months	1 660.7
	Government and other securities at term	
4 490.3	Not exceeding 3 months	*3 753.3*
13 849.2	Over 3 months	*19 857.6*
18 339.5		23 610.9
113.2	Land, buildings and equipment	115.4
783.7	Miscellaneous	699.1
76 054.0		87 714.4

2001 After allocation of the year's net profit	Liabilities	2002 Before allocation of the year's net profit	2002 After allocation of the year's net profit
330.7	Capital	330.7	330.7
3 134.7	Reserves	3 134.7	3 307.8
(384.0)	Shares held in treasury	(384.0)	(384.0)
56.0	Valuation difference account	25.5	25.5
	Deposits (gold)		
2 178.1	Sight	*1 909.8*	*1 909.8*
282.5	Not exceeding 3 months	*266.4*	*266.4*
381.7	Over 3 months	*355.2*	*355.2*
2 842.3		2 531.4	2 531.4
	Deposits (currencies)		
2 690.5	Sight	*2 510.3*	*2 510.3*
28 204.1	Not exceeding 3 months	*36 369.5*	*36 369.5*
36 380.2	Over 3 months	*40 606.6*	*40 606.6*
67 274.8		79 486.4	79 486.4
	Securities sold under repurchase agreements		
990.6	Not exceeding 3 months	660.0	660.0
1 760.3	Miscellaneous	1 704.0	1 704.0
	Profit and Loss Account	225.7	
48.6	Dividend		52.6
76 054.0		87 714.4	87 714.4

Profit and Loss Account

for the financial year ended 31 March 2002
(in millions of gold francs)

	2001	2002
Interest and discount, and other operating income	5 532.0	6 049.2
Less: interest and discount expense	5 193.3	5 756.1
Net interest and other operating income	338.7	293.1
Less: costs of administration		
Board of Directors	*1.1*	*0.9*
Management and staff	*39.3*	*39.0*
Office and other expenses	*18.5*	*18.7*
Costs of administration before depreciation	58.9	58.6
Depreciation	*8.1*	*8.8*
	67.0	67.4
Net profit for the financial year	271.7	225.7

The Board of Directors recommends to the Annual General Meeting that the net profit for the year ended 31 March 2002 be allocated in accordance with Article 51 of the Statutes as follows:

	2001	2002
Dividend: 380 Swiss francs per share on 452 073 shares		*52.6*
360 Swiss francs per share on 452 113 shares	*48.6*	
	48.6	52.6
	223.1	173.1
Transfer to general reserve fund	44.6	26.9
	178.5	146.2
Transfer to special dividend reserve fund	3.0	3.0
	175.5	143.2
Transfer to free reserve fund	175.5	143.2
	–	–

Movements in the Bank's capital and reserves

during the financial year ended 31 March 2002
(in millions of gold francs)

I. Capital

	Number of shares	Gold francs (millions)
Shares of 2 500 gold francs, of which 25% has been paid up:		
Balance at 31 March 2001 as per Balance Sheet	529 165	330.7
Balance at 31 March 2002 as per Balance Sheet	529 125	330.7

Further information is given in note 7 to the Accounts.

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 2001 after allocation of net profit for the financial year 2000/01	33.1	1 303.7	71.5	1 726.4	3 134.7
Add: allocation of net profit for the financial year 2001/02	–	26.9	3.0	143.2	173.1
Balances at 31 March 2002 as per Balance Sheet	33.1	1 330.6	74.5	1 869.6	3 307.8

III. Capital and reserve funds at 31 March 2002 (after allocation) were represented by:

	Capital	Reserve funds	Total of capital and reserves
Net assets in			
Gold	330.7	330.7	661.4
Currencies	–	2 977.1	2 977.1
Balances at 31 March 2002 as per Balance Sheet	330.7	3 307.8	3 638.5

Notes to the Accounts

for the financial year ended 31 March 2002
(in millions of gold francs)

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 Basel, 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. Fifty 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 2001/02 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$ 1.94149… . Article 4 of the Bank's Statutes defines the gold franc (abbreviated to GF) as representing 0.29032258… grams 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 GF 1 = US$ 1.94149…). 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

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

Land – not depreciated.
Buildings – 50 years.
Building installations and machinery – 15 years.
Information technology 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 in item (a) above; 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

Each year the Board of Directors reviews the level of, and if necessary sets aside an amount to, the above provision and determines its use. The provision is incorporated in miscellaneous liabilities.

3. Gold holdings

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

Assets	*2001*	2002
Gold bars held at central banks	*2 195.3*	1 910.3
Gold time deposits:		
Not exceeding 3 months	*372.0*	328.4
Over 3 months	*953.8*	971.2
	3 521.1	3 209.9

The Bank's own gold holdings at 31 March 2002 amounted to GF 661.4 million, equivalent to 192 tonnes of fine gold (2001: GF 661.7 million; 192 tonnes).

4. Treasury bills

The Bank's holdings were as follows:

	2001	2002
Book value	*4 597.8*	9 588.1

The market value of treasury bills at 31 March 2002 was GF 9 587.0 million (2001: GF 4 601.1 million).

5. Government and other securities at term

The Bank's holdings were as follows:

	2001	2002
Book value	*18 339.5*	23 610.9

The market value of government and other securities at term at 31 March 2002 was GF 23 649.6 million (2001: GF 18 558.4 million).

6. Land, buildings and equipment

	Land & buildings	IT & other equipment	Total
Cost:			
Opening balance at 1 April 2001	125.8	31.9	157.7
Capital expenditure		8.0	8.0
Exchange adjustments	3.3	0.9	4.2
Cost at 31 March 2002	129.1	40.8	169.9
Depreciation:			
Accumulated depreciation at 1 April 2001	29.5	15.0	44.5
Depreciation charge for the current year	2.3	6.5	8.8
Exchange adjustments	0.8	0.4	1.2
Accumulated depreciation at 31 March 2002	32.6	21.9	54.5
Net book value at 31 March 2002	96.5	18.9	115.4

The cost of the Bank's land at 31 March 2002 was GF 23.5 million (2001: GF 22.9 million).

7. Capital

The Bank's share capital consists of:

	2001	2002
Authorised capital:		
600 000 shares, each of 2 500 gold francs	*1 500.0*	1 500.0
Issued capital: 529 125 shares (2001: 529 165)	*1 322.9*	1 322.8
of which 25% paid up	*330.7*	330.7

(a) The Extraordinary General Meeting on 8 January 2001 amended the Bank's Statutes to restrict the right to hold shares in the BIS exclusively to central banks, thereby effecting a mandatory repurchase of 72 648 shares from the American, Belgian and French issues held by private (ie non-central bank) shareholders against compensation of 16 000 Swiss francs per share. As regards shares in these issues held by central banks other than those of the three countries of issue, the Bank repurchased at the same price 2 304 shares, of which the repurchase of 500 shares was completed after 31 March 2001. The Board will, in due course, redistribute these shares to the Bank's existing central bank shareholders in a manner which it considers appropriate. The voting rights attached to these shares remain unaffected; they continue to be exercisable by the American, Belgian and French central banks, respectively.

(b) The cost of repurchasing the total of 74 952 shares above, which amounts to GF 384.0 million, is shown as a negative liability under the caption "Shares held in treasury" in the Bank's Balance Sheet.

(c) Forty shares were cancelled during the financial year 2001/02. These represented the provisional issue of 10 shares each to the Central Bank of Bosnia and Herzegovina, the Croatian National Bank, the National Bank of the Republic of Macedonia and the Bank of Slovenia.

(d) The number of outstanding shares on which the dividend for the financial year 2001/02 is payable is as follows:

Issued capital as at 31 March 2002	529 125
Less: shares held in treasury	
From private shareholders and central banks	74 952
Others	2 100
Total outstanding shares eligible for dividend	452 073

8. Reserves

The Bank's reserves consist of:

	2001	2002
Legal reserve fund	*33.1*	33.1
General reserve fund	*1 303.7*	1 330.6
Special dividend reserve fund	*71.5*	74.5
Free reserve fund	*1 726.4*	1 869.6
	3 134.7	3 307.8

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 Table II of "Movements in the Bank's capital and reserves".

9. Deposits

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

	2001	2002
Central banks		
Sight	*2 293.7*	2 214.2
Not exceeding 3 months	*27 176.4*	34 372.8
Over 3 months	*35 216.9*	39 641.0
Other depositors		
Sight	*396.8*	296.1
Not exceeding 3 months	*1 027.7*	1 996.7
Over 3 months	*1 163.3*	965.6
	67 274.8	79 486.4

10. 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 manage the Bank's interest rate and currency exposure on assets and liabilities. The Bank applies the same credit criteria in considering off-balance sheet commitments as it does for all other investments.

Notional principal amounts

	2001	2002
Exchange rate contracts:		
Foreign exchange swaps and forwards	*11 542.4*	4 704.2
Currency swaps	*1 776.1*	5 438.0
Options	–	207.9
Interest rate contracts:		
Interest rate swaps	*41 012.6*	69 767.5
Forward rate agreements and futures	*21 864.3*	29 837.1

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 2002 was GF 1 601.3 million (2001: GF 1 476.1 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.

	2001	2002
Nominal value of securities held in safe custody	*8 400.5*	8 140.4
Gold held under earmark	*700.3*	587.3

(c) Staff Pensions System and Savings Scheme

The Bank operates a Pensions System and a Savings Scheme. The two funds are similar to trust funds, having 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 two schemes. All payments under these schemes are charged to the fund concerned.

The Bank is committed to maintaining 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 in respect of current service is included in its costs of administration each month.

At 31 March 2002 the market value of the net assets of the Pension Fund was GF 257.1 million (2001: GF 256.3 million), representing a coverage ratio of 108% (2001: 117%) based on the latest annual actuarial value of the fund's obligations as at 30 September 2001. The market value of the net assets of the Savings Fund was GF 24.6 million at 31 March 2002 (2001: GF 23.8 million), representing a coverage ratio of 106% (2001: 102%) with reference to the liabilities of the scheme at that date. The most recent annual accounts of the Pension and Savings Funds relate to the year ended 30 September 2001.

11. Contingent liabilities

Certain former private shareholders have expressed their dissatisfaction with the amount of compensation being paid to them by the Bank in connection with the mandatory repurchase of the shares not held by central banks. Proceedings are currently pending before the Arbitral Tribunal in The Hague and an action has been initiated before the Commercial Court in Paris. The Bank has declared that should the Arbitral Tribunal increase the compensation, such increased amount would apply in respect of all repurchased shares.

Report of the Auditors

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

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 2002 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　　　　Anthony W Travis

Basel, 13 May 2002

Five-year summary of the Balance Sheet

(in millions of gold francs)

Financial year ended 31 March	1998	1999	2000	2001	2002
Gold					
Held in bars	*3 037.1*	*2 801.5*	*2 265.4*	*2 195.3*	*1 910.3*
Time deposits and advances	*1 122.4*	*1 077.2*	*1 240.4*	*1 325.8*	*1 299.6*
	4 159.5	3 878.7	3 505.8	3 521.1	3 209.9
Cash on hand and on sight account with banks	7.8	8.3	11.4	20.3	3 292.3
Treasury bills	1 863.9	7 314.0	7 853.9	4 597.8	9 588.1
Time deposits and advances in currencies	34 862.2	32 423.0	41 853.9	44 796.4	45 538.0
Securities purchased under resale agreements	2 781.0	276.0	1 268.1	3 882.0	1 660.7
Government and other securities at term	18 517.1	22 167.9	20 139.9	18 339.5	23 610.9
Land, buildings and equipment	–	124.7	120.7	113.2	115.4
Miscellaneous assets	258.7	44.5	82.0	783.7	699.1
Total assets	62 450.2	66 237.1	74 835.7	76 054.0	87 714.4
Paid-up capital	323.2	323.2	330.7	330.7	330.7
Reserves *(after allocation of the net profit for the year)*					
Legal reserve fund	*32.3*	*32.3*	*33.1*	*33.1*	*33.1*
General reserve fund	*1 016.3*	*1 156.4*	*1 259.1*	*1 303.7*	*1 330.6*
Special dividend reserve fund	*62.5*	*65.5*	*68.5*	*71.5*	*74.5*
Free reserve fund	*1 157.4*	*1 351.4*	*1 550.9*	*1 726.4*	*1 869.6*
	2 268.5	2 605.6	2 911.6	3 134.7	3 307.8
Shares held in treasury	–	–	–	(384.0)	(384.0)
Valuation difference account	247.2	265.4	191.9	56.0	25.5
Deposits					
Gold	*3 473.7*	*3 192.6*	*2 820.2*	*2 842.3*	*2 531.4*
Currencies	*54 023.6*	*57 705.8*	*65 903.7*	*67 274.8*	*79 486.4*
	57 497.3	60 898.4	68 723.9	70 117.1	82 017.8
Securities sold under repurchase agreements	30.7	121.5	103.0	990.6	660.0
Staff pension scheme	257.0	–	–	–	–
Miscellaneous liabilities	1 773.7	1 965.6	2 519.9	1 760.3	1 704.0
Dividend	52.6	57.4	54.7	48.6	52.6
Total liabilities	62 450.2	66 237.1	74 835.7	76 054.0	87 714.4

Five-year summary of the Profit and Loss Account

(in millions of gold francs)

Financial year ended 31 March	1998	1999	2000	2001	2002
Net interest and other operating income	314.9	370.4	376.6	338.7	293.1
Less: costs of administration					
Board of Directors	*1.3*	*1.3*	*1.2*	*1.1*	*0.9*
Management and staff	*39.4*	*40.9*	*40.6*	*39.3*	*39.0*
Office and other expenses	*15.0*	*18.6*	*19.4*	*18.5*	*18.7*
Costs of administration before depreciation	55.7	60.8	61.2	58.9	58.6
Depreciation	–	*6.0*	*7.6*	*8.1*	*8.8*
	55.7	66.8	68.8	67.0	67.4
Net profit for the financial year	259.2	303.6	307.8	271.7	225.7
Dividend	52.6	57.4	54.7	48.6	52.6
	206.6	246.2	253.1	223.1	173.1
Transfer to general reserve fund	41.3	49.2	50.6	44.6	26.9
	165.3	197.0	202.5	178.5	146.2
Transfer to special dividend reserve fund	3.0	3.0	3.0	3.0	3.0
	162.3	194.0	199.5	175.5	143.2
Transfer to free reserve fund	162.3	194.0	199.5	175.5	143.2
	–	–	–	–	–

Board of Directors

Nout H E M Wellink, Amsterdam
Chairman of the Board of Directors,
President of the Bank

Lord Kingsdown, London
Vice-Chairman

Urban Bäckström, Stockholm
Vincenzo Desario, Rome
David Dodge, Ottawa
Antonio Fazio, Rome
Sir Edward George, London
Alan Greenspan, Washington
Hervé Hannoun, Paris
Masaru Hayami, Tokyo
William J McDonough, New York
Guy Quaden, Brussels
Jean-Pierre Roth, Zurich
Hans Tietmeyer, Frankfurt am Main
Jean-Claude Trichet, Paris
Alfons Vicomte Verplaetse, Brussels
Ernst Welteke, Frankfurt am Main

Alternates

Bruno Bianchi or Stefano Lo Faso, Rome
Roger W Ferguson or Karen H Johnson, Washington
Peter Praet or Jan Smets, Brussels
Jürgen Stark or Stefan Schönberg, Frankfurt am Main
Marc-Olivier Strauss-Kahn or Michel Cardona, Paris
Paul Tucker or Paul Fisher, London

Subcommittees of the Board of Directors

Consultative Committee
Audit Committee

both chaired by Lord Kingsdown

Senior Officials of the Bank

Andrew Crockett	General Manager
André Icard	Deputy General Manager
Gunter D Baer	Secretary General, Head of Department
William R White	Economic Adviser, Head of Monetary and Economic Department
Robert D Sleeper	Head of Banking Department
Renato Filosa	Manager, Monetary and Economic Department
Mario Giovanoli	General Counsel, Manager
Günter Pleines	Deputy Head of Banking Department
Peter Dittus	Deputy Secretary General
Josef Tošovský	Chairman, Financial Stability Institute

BIS member central banks

Central Bank of the Argentine Republic

Reserve Bank of Australia

Austrian National Bank

National Bank of Belgium

Central Bank of Bosnia and Herzegovina

Central Bank of Brazil

Bulgarian National Bank

Bank of Canada

The People's Bank of China

Croatian National Bank

Czech National Bank

National Bank of Denmark

Bank of Estonia

European Central Bank

Bank of Finland

Bank of France

Deutsche Bundesbank

Bank of Greece

Hong Kong Monetary Authority

National Bank of Hungary

Central Bank of Iceland

Reserve Bank of India

Central Bank of Ireland

Bank of Italy

Bank of Japan

The Bank of Korea

Bank of Latvia

The Bank of Lithuania

National Bank of the Republic of Macedonia

Central Bank of Malaysia

Bank of Mexico

Netherlands Bank

Central Bank of Norway

National Bank of Poland

Bank of Portugal

National Bank of Romania

Central Bank of the Russian Federation

Saudi Arabian Monetary Agency

Monetary Authority of Singapore

National Bank of Slovakia

Bank of Slovenia

South African Reserve Bank

Bank of Spain

Sveriges Riksbank

Swiss National Bank

Bank of Thailand

Central Bank of the Republic of Turkey

Bank of England

Board of Governors of the Federal Reserve System

National Bank of Yugoslavia