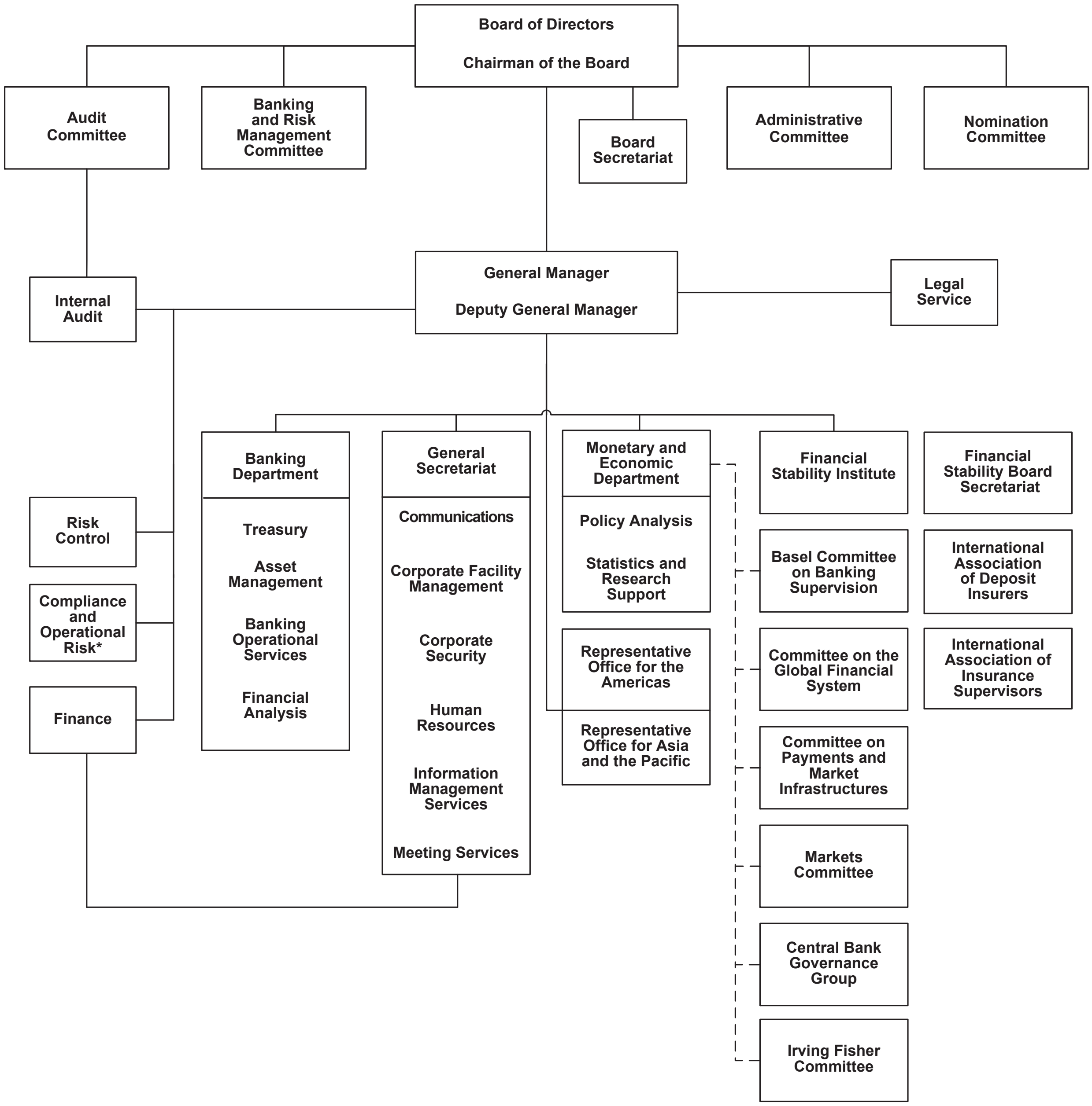
Organisation of the BIS as at 31 March 2015



* Direct access to the Audit Committee on compliance matters.

The BIS: mission, activities, governance and financial results

The Bank for International Settlements (BIS) serves central banks in their pursuit of monetary and financial stability, fosters international cooperation in those areas and acts as a bank for central banks. In outline, the BIS pursues this mission by:

- facilitating dialogue and collaboration among central banks and other authorities that are responsible for promoting financial stability;
- conducting research on policy issues confronting central banks and financial supervisory authorities;
- acting as a prime counterparty for central banks in their financial transactions; and
- serving as an agent or trustee in connection with international financial operations.

The BIS has its head office in Basel, Switzerland, and representative offices in the Hong Kong Special Administrative Region of the People's Republic of China (Hong Kong SAR) and in Mexico City.

In the light of the aims outlined above, this chapter reviews the activities of the BIS, and of the groups it hosts, for the financial year 2014/15; describes the institutional framework that supports the work of those groups; and presents the year's financial results.

The meetings programmes and the Basel Process

The BIS promotes international cooperation among monetary authorities and financial supervisory officials through its meetings programmes and through the Basel Process – hosting international groups pursuing global financial stability (such as the Basel Committee on Banking Supervision and the Financial Stability Board) and facilitating their interaction.

Bimonthly meetings and other regular consultations

At bimonthly meetings, normally held in Basel, Governors and other senior officials of BIS member central banks discuss current developments and the outlook for the world economy and financial markets. They also exchange views and experiences on issues of interest to central banks.

The two principal bimonthly meetings are the Global Economy Meeting and the All Governors' Meeting.

Global Economy Meeting

The Global Economy Meeting (GEM) comprises the Governors of 30 BIS member central banks in major advanced and emerging market economies that account for about four fifths of global GDP. The Governors of another 19 central banks attend the GEM as observers.[1] The GEM has two main roles: (i) monitoring and assessing developments, risks and opportunities in the world economy and the global financial system; and (ii) providing guidance to three BIS-based central bank committees – the Committee on the Global Financial System, the Committee on Payments and Market Infrastructures and the Markets Committee.

The GEM's economic discussions focus on current macroeconomic and financial developments in major advanced and emerging market economies. Specific topics discussed by the GEM over the past year included: the implications of unusually low financial market volatility; the current role of macroprudential policies; risk-taking in the real and financial sectors; the impact of lower oil prices; the implications of negative interest rates; and external adjustments against the backdrop of large movements in exchange rates.

As the Global Economy Meeting is quite large, it is supported by an informal group known as the Economic Consultative Committee (ECC). Limited to 18 participants, the ECC includes all Governors participating in the BIS Board meeting and the BIS General Manager. The ECC assembles proposals for consideration by the GEM. In addition, the ECC Chairman initiates recommendations to the GEM on the appointment of Chairs of the three central bank committees mentioned above and on the composition and organisation of those committees.

All Governors' Meeting

The All Governors' Meeting comprises the Governors of the 60 BIS member central banks and is chaired by the BIS Chairman. It convenes to discuss selected topics of general interest to its members. In 2014/15, the topics discussed were: Bitcoin and other virtual currencies – implications for central banks; central bank profitability – trends and policy relevance; global demographic change – issues for central banks; financial markets and central banks; the rise of regional banking in Asia and the Pacific; and inequality and monetary policy.

By agreement with the GEM and the BIS Board, the All Governors' Meeting is responsible for overseeing the work of two other groups that have a broader network or membership than the GEM. These are the Central Bank Governance Group, which also meets during the bimonthly meetings, and the Irving Fisher Committee on Central Bank Statistics.

Central Bank Governors and Heads of Supervision

The Group of Central Bank Governors and Heads of Supervision (GHOS) is a high-level forum responsible for international collaboration on banking supervision. It decides on global banking regulations and oversees the work of the Basel Committee on Banking Supervision (see page 136).

1 The members of the GEM are the central bank Governors of Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Malaysia, Mexico, the Netherlands, Poland, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States and also the President of the European Central Bank and the President of the Federal Reserve Bank of New York. The Governors attending as observers are from Algeria, Austria, Chile, Colombia, the Czech Republic, Denmark, Finland, Greece, Hungary, Ireland, Israel, Luxembourg, New Zealand, Norway, Peru, the Philippines, Portugal, Romania and the United Arab Emirates.

Other meetings of Governors

The central bank Governors of major emerging market economies (EMEs) meet three times a year – during the January, May and September bimonthly meetings – to discuss issues of special importance to their economies. The topics discussed in 2014/15 included: global asset management companies and emerging market asset classes; international currencies and the international monetary system; and the implications for EMEs of exchange rate and commodity price developments.

Regular meetings were also held for the Governors of central banks in small open economies.

Other consultations

In addition, the Bank regularly organises various meetings that bring together not only central bank officials but also representatives from other financial authorities, the private financial sector and the academic community to discuss topics of shared interest.

These events include:

- the annual meetings of the working parties on monetary policy, held in Basel but also hosted at a regional level by a number of central banks in Asia, central and eastern Europe, and Latin America;
- the meeting of Deputy Governors of emerging market economies; and
- the high-level meetings organised by the Financial Stability Institute in various regions of the world for Governors and Deputy Governors and heads of supervisory authorities.

Other meetings in the past year included:

- a roundtable meeting of Governors from African central banks, in June 2014; and
- a meeting for central bank Governors on macroprudential policies, jointly organised by the Central Bank of the Republic of Turkey and the BIS in February 2015, following a joint workshop in December 2014.

The Basel Process

The Basel Process refers to the BIS's role in hosting and supporting the work of international groups – six committees and three associations – engaged in standard setting and the pursuit of financial stability.

The hosted committees, whose agendas are guided by various sets of central banks and supervisory authorities, are as follows:

- the Basel Committee on Banking Supervision (BCBS): develops global regulatory standards for banks and seeks to strengthen micro- and macroprudential supervision;
- the Committee on the Global Financial System (CGFS): monitors and analyses issues relating to financial markets and systems;
- the Committee on Payments and Market Infrastructures (CPMI): analyses and sets standards for payment, clearing and settlement infrastructures;
- the Markets Committee: monitors developments in financial markets and their implications for central bank operations;
- the Central Bank Governance Group: examines issues related to the design and operation of central banks; and
- the Irving Fisher Committee on Central Bank Statistics (IFC): addresses statistical issues relating to economic, monetary and financial stability.

The hosted associations are as follows:

- the Financial Stability Board (FSB): an association including finance ministries, central banks and other financial authorities in 24 countries; coordinates at the international level the work of national authorities and international standard setters and develops policies to enhance financial stability;
- the International Association of Deposit Insurers (IADI): sets global standards for deposit insurance systems and promotes cooperation on deposit insurance and bank resolution arrangements; and
- the International Association of Insurance Supervisors (IAIS): sets standards for the insurance sector to promote globally consistent supervision.

The Bank's own Financial Stability Institute (FSI) facilitates the dissemination of the standard-setting bodies' work to central banks and financial sector supervisory and regulatory agencies through its extensive programme of meetings, seminars and online tutorials.

The Basel Process is based on three key features: synergies of co-location; flexibility and openness in the exchange of information; and support from the BIS's expertise in economics, banking and regulation.

Synergies

The physical proximity of the nine committees and associations at the BIS creates synergies that produce a broad and fruitful exchange of ideas. In addition, by reducing each group's costs of operation through economies of scale, the Basel Process supports a more efficient use of public funds.

Flexibility

The limited size of these groups is conducive to flexibility and openness in the exchange of information, thereby facilitating coordination and preventing overlaps and gaps in their work programmes. At the same time, their output is much larger than their limited size would suggest, as they are able to leverage the expertise of the international community of central bankers, financial regulators and supervisors, and other international and national public authorities.

Support from the BIS's economic expertise and banking experience

The work of the Basel-based committees is informed by the BIS's economic research and, where appropriate, by the practical experience it gains from the implementation of regulatory standards and financial controls in its banking activities.

Activities of BIS-hosted committees and the FSI

This section reviews the year's principal activities of the six committees hosted by the BIS and of the Financial Stability Institute.

Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision (BCBS) seeks to enhance supervisory cooperation and improve the quality of banking supervision worldwide. Its mandate is to strengthen the regulation, supervision and practices of banks for the purpose of enhancing financial stability. The Committee supports supervisors by providing a forum for exchanging information on national supervisory arrangements, improving the effectiveness of techniques for supervising international banks, and setting minimum supervisory and regulatory standards.

The Committee consists of senior representatives of banking supervisory authorities and central banks responsible for banking supervision or financial stability issues in the Committee's member countries. It is chaired by Stefan Ingves, Governor of Sveriges Riksbank, and generally meets four times a year. The Committee's governing body is the Group of Governors and Heads of Supervision (GHOS) from member countries. The Committee seeks the endorsement of GHOS for its major decisions and its work programme.

Current work programme

At its January 2015 meeting, the GHOS reviewed and endorsed the Committee's strategic priorities:

- *Policy development*. The Committee continues to pursue its post-crisis reform agenda, with a focus on improving confidence in capital ratios by, for example, revising methods for measuring risk-weighted assets (RWA). During the year, the Committee released for consultation proposed revisions to the standardised approaches for credit and operational risk (see below). The Committee introduced an initiative to assess the interaction, coherence and overall calibration of the reform policies. The Committee has also begun a review of the regulatory treatment of sovereign risk.
- *Balancing simplicity, comparability and risk sensitivity*. For the effectiveness of the Basel capital standards, the Committee considers it essential to simplify them where possible and to improve the comparability of their outcomes. To that end, it is focusing on ways to improve the balance between comparability and complexity in the Basel capital framework. The Committee is also working to improve the presentation of its online documents, including the consolidation of the Basel framework into a single volume.
- *Monitoring and assessing implementation*. The Committee regularly evaluates member jurisdictions' adoption of its standards by means of the Regulatory Consistency Assessment Programme (RCAP). The RCAP will be expanded to cover Basel liquidity standards and the frameworks for global and domestic systemically important banks.
- *Improving the effectiveness of supervision*. Continuing its work on improving supervisory effectiveness, the Committee will focus on practices related to stress testing, valuation practices and the role of Pillar 2 in the capital framework.

During the year, the Committee finalised or published for consultation a range of standards related to policy reform as well as reports on policy implementation and supervision.

Policy reform

The Committee developed a number of global standards for banks during the year.

Capital requirements for bank exposures to central counterparties. In April 2014, the Committee published a revised standard on the capital treatment of bank exposures to central counterparties. The standard is the result of a collaborative effort between the BCBS, the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) to improve the interim capital requirements published in July 2012. The BCBS, CPMI and IOSCO sought to simplify the interim policy framework and support broader policy efforts, particularly those relating to central clearing of standardised over-the-counter (OTC) derivative contracts. The revised standard will take effect on 1 January 2017.

Supervisory framework for measuring and controlling large exposures. In April 2014, the Committee finalised a supervisory framework for measuring and controlling large credit exposures to contain the maximum loss a bank could face in the event of a sudden counterparty failure. The standard includes limits on large exposures. The large exposure limit is 25% of a bank's Tier 1 capital; exposures between global systemically important banks (G-SIBs) are limited to 15% of Tier 1 capital. The standard will take effect from 1 January 2019.

Operational risk – revisions to the simpler approaches. In October 2014, the Committee published for consultation its proposed revisions to the standardised approach for measuring operational risk capital. Aiming to address weaknesses identified in the existing standardised approaches (ie the non-model-based approaches), a revised standardised approach will replace the three current standardised approaches. The Committee expects to finalise the new approach around the end of 2015.

Pillar 3 disclosure requirements. In January 2015, the Committee published its revisions to the Pillar 3 disclosure standard. This followed the release of a consultative paper in June 2014. The revised standard promotes greater consistency in the way banks disclose information about risks as well as their risk measurement and management. The revisions aim to enable market participants to compare banks' disclosures of the capital ratio's denominator (ie RWA) and to assess more effectively a bank's overall capital adequacy. The disclosures also respond to concerns about the opacity of internal model-based approaches to determining RWA. The revised requirements will take effect from end-2016.

Net Stable Funding Ratio and disclosure standards. In October 2014, after extensive consultation, the Committee finalised the standard for the Net Stable Funding Ratio (NSFR). A key element of the Basel III liquidity framework, the NSFR will limit overreliance on short-term wholesale funding, encourage better assessment of funding risk across on- and off-balance sheet items, and promote funding stability. In addition, in December 2014 the Committee published for consultation disclosure requirements for the NSFR to improve the transparency of regulatory funding requirements, reinforce its principles for sound liquidity risk management and supervision, strengthen market discipline, and reduce uncertainty in the markets as the NSFR is implemented. The NSFR will become a minimum standard by 1 January 2018.

Fundamental review of the trading book. In December 2014, the Committee conducted a third round of consultation on outstanding issues relating to the fundamental review of the trading book. The goal of the review is to improve trading book capital requirements and promote consistent implementation of the standard. The latest consultation focused on certain implementation aspects of the proposed framework, including a simpler method for incorporating liquidity horizons into the internal models approach and a revised standardised approach that uses as inputs changes in the value of a trading position based on sensitivity to underlying risk factors.

Revisions to the standardised approach for credit risk. In December 2014, the Committee proposed revisions to the standardised approach for credit risk. These seek to strengthen the existing regulatory capital standard by reducing reliance on external credit ratings; enhancing granularity and risk sensitivity; improving comparability with the internal ratings-based (IRB) approach with respect to the definition and treatment of similar exposures; and clarifying the application of the standard.

One specific aspect of the proposed revisions is to replace references to external ratings with a limited number of risk drivers. Given the challenges associated with identifying risk drivers that can be applied globally but which also reflect the local nature of some exposures – such as retail credit and mortgages – the Committee recognised that the proposals are still at an early stage of development.

Introduction of a capital floor based on the standardised approaches. In December 2014, the Committee released for consultation a proposal for a capital floor based on standardised, non-internally modelled approaches. The proposed floor, which would replace the existing transitional capital floor from the Basel I framework, will be based on the standardised approaches for credit, market and operational risk, revisions of which are currently under consideration. The floor is meant to mitigate model risk and measurement error stemming from internally modelled approaches, enhance the comparability of capital outcomes across banks, and also ensure that capital across the banking system does not fall below a certain level. The Committee will consider the calibration of the floor alongside its work on finalising the revised standardised approaches.

Revisions to the securitisation framework. In December 2014, the Committee published its revisions to the securitisation framework after two rounds of consultation and quantitative impact assessment. In revising the framework, the Committee aims to strike an appropriate balance between risk sensitivity, simplicity and comparability, and to address a number of shortcomings in the existing framework, including mechanistic reliance on external ratings, lack of risk sensitivity, cliff effects and insufficient capital for certain exposures. The revised framework will come into effect in January 2018.

Criteria for identifying simple, transparent and comparable securitisations. In December 2014, the Committee and IOSCO released for consultation criteria for identifying – and assisting the financial industry's development of – simple, transparent and comparable securitisation structures. The criteria will also help parties involved in a securitisation transaction evaluate the risks of a particular securitisation as part of their due diligence. The criteria may be supplemented or expanded based on specific needs and applications, such as investor mandates, regulatory applications or central bank collateral frameworks.

Policy implementation

Implementation of the Basel III framework is a key priority for the Committee. As noted above, the Basel Committee has adopted a Regulatory Consistency Assessment Programme (RCAP) to monitor its member jurisdictions' progress on implementation and assess the consistency and completeness of the adopted standards. The RCAP also facilitates dialogue among Committee members and aids the Committee in developing standards.

During the year, the RCAP conducted jurisdictional assessments for Canada, the European Union, Hong Kong SAR, Mexico and the United States. The Committee has now completed assessments for all countries that are home to G-SIBs. By end-2015, it will have completed or initiated detailed peer reviews of the capital regulations of all 27 member jurisdictions of the Basel Committee, which together account for more than 90% of global banking assets.

In addition, the Committee published several other reports relating to the implementation of the Basel framework.

Progress reports. In April and October 2014, the Committee issued reports providing a high-level view of Committee members' progress in adopting the Basel framework (including reforms made after the financial crisis). The reports focus on the status of domestic rule-making processes to ensure that the Committee's standards are transformed into national law or regulation according to the internationally agreed time frames. The Committee believes that disclosure will provide an additional incentive for members to fully comply with the international agreements.

Reports to the G20. In November 2014, the Committee reported to the G20 Leaders on BCBS members' progress in adopting the Basel III standards and banks' progress in bolstering their capital and liquidity positions. The report also highlighted specific implementation-related challenges.

In November 2014, the Committee also reported to the G20 Leaders on the steps it is taking to improve consistency and comparability in bank capital ratios and to strengthen confidence in RWA. These measures include proposals to revise the standardised approaches for calculating regulatory capital ratios – which will also provide the basis for a capital floor – and to constrain modelling choices when using models to determine capital. The report also discusses the role of disclosure, implementation monitoring and additional analytical and policy work in progress.

Basel III monitoring reports. Published twice a year, the Committee's Basel III monitoring report covers the implications of Basel III for financial markets. The results of the monitoring exercise assume that the final Basel III package has been fully implemented. Thus, they do not take account of the transitional arrangements set out in the Basel III framework, such as the gradual phase-in of deductions from regulatory capital.

The latest report was released in March 2015 and summarises data as of 30 June 2014. The report shows that all large internationally active banks now meet the Basel III risk-based capital minimum requirements. As for the liquidity requirements, 80% of the banks in the sample reported a Liquidity Coverage Ratio (LCR) that met or exceeded 100% (the standard for 2019), while 96% reported an LCR at or above 60% (the initial standard set when the LCR came into effect on 1 January 2015). A longer-term structural liquidity standard, the Net Stable Funding Ratio (NSFR), was finalised in October 2014. Based on the January 2014 consultative document, a sample collected at end-June 2014, and thus obtained prior to the release of the revised standard, reported that 80% of the banks met or exceeded 100%, while 92% of the banks reported an NSFR at or above 90%.

The G-SIB assessment methodology – score calculation. In November 2014, the Committee published technical information related to the Financial Stability Board's publication of an updated list of G-SIBs. The list is based on the assessment methodology for G-SIBs published by the Committee in July 2013, which uses an indicator-based approach comprising five categories: size; interconnectedness; lack of readily available substitutes or financial institution infrastructure; global (cross-jurisdictional) activity; and complexity. The information published by the Committee included a technical summary, which further explains the methodology and the denominators used to calculate the scores for banks as well as the cutoff score that was used to identify the updated list of G-SIBs. Also provided were the thresholds used to allocate G-SIBs to buckets for the purposes of calculating the specific capital surcharge for each institution as well as links to the disclosures of the G-SIBs designated in 2014.

National discretions. The Basel framework includes a number of national discretions that allow countries to adapt the international standards to reflect differences in the structure and development of financial systems. Use of national discretions can impair comparability across jurisdictions and has been found to be a driver of RWA variability. In November 2014, the Committee published information about each member's use of national discretions allowed within the Basel capital framework. Publishing this information serves to provide greater transparency to market participants to help improve comparability across jurisdictions. As national discretions have been found to be a driver of RWA variability, the Committee is reviewing their use with a view to removing a number of them.

Principles for the sound management of operational risk. The Committee published in October 2014 a review of banks' implementation of the 2011 *Principles for the sound management of operational risk*, which embody the lessons from the financial crisis and set out the Committee's expectations for the management of operational risk. The review covered 60 systemically important banks (SIBs) in 20 jurisdictions by means of a questionnaire against which banks self-assessed the extent and quality of their implementation. Progress in implementing the principles varies significantly across banks and, overall, more work is needed to achieve full implementation. The principles that were identified as among the least thoroughly implemented were: (i) operational risk identification and assessment; (ii) change management; (iii) operational risk appetite and tolerance; and (iv) disclosure.

Supervision

Rigorous supervision is crucial for the functioning of the policy framework. During the year, the Committee published several documents to aid supervisors in undertaking effective supervision of regulated banks.

Supervisory colleges. In June 2014, the Committee issued final principles for effective supervisory colleges. The principles update the original document published in October 2010 and are intended to promote and strengthen the operation of colleges, which play a crucial role in the effective supervision of international banking groups. The revisions underscore the importance of continuous collaboration and information-sharing outside the formal college meetings and the development of a shared agenda for addressing risks and vulnerabilities. They also incorporate recent developments, such as the formation of crisis management groups and greater focus on macroprudential considerations.

Supervisory guidelines for identifying and dealing with weak banks. In mid-2015, the Committee expects to publish final guidelines for supervisors to help identify and deal with weak banks. The guidelines, which replace the original guidance first published in 2002, will provide a toolkit for supervisors and international financial institutions advising supervisors. They will offer practical information relating to problem identification, corrective action, resolution techniques and exit strategies and highlight, in particular, the importance of early identification and preparation, and close international cooperation.

Corporate governance principles. In October 2014, the Committee released proposals for further enhancing its principles on corporate governance at banks.

Effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole. The Committee's revised principles provide a framework for robust and transparent risk management and decision-making at banks. The revised principles strengthen the guidance on risk governance and the importance of a sound risk culture; expand the guidance on the role of the board of directors; and provide guidance for supervisors in evaluating the processes used by banks to select board members and senior management. The Committee expects to finalise the principles in mid-2015.

Guidance on accounting for expected credit losses. This consultative document, published in February 2015, outlines supervisory expectations for implementing and applying an expected credit loss (ECL) accounting framework at banks. This guidance will replace the Committee's June 2006 supervisory guidance on *Sound credit risk assessment and valuation for loans*, which was based on the incurred-loss model of accounting. The proposed guidance is consistent with the applicable accounting standards established by the International Accounting Standards Board (IASB) and other standard setters.

BCBS: www.bis.org/bcbs

Committee on the Global Financial System

The Committee on the Global Financial System (CGFS) monitors financial market developments for the Governors of the BIS Global Economy Meeting and analyses the implications of these developments for financial stability and central bank policy. The CGFS is chaired by William C Dudley, President of the Federal Reserve Bank of New York. The Committee's members are Deputy Governors and other senior officials from 23 central banks of major advanced and emerging market economies as well as the BIS's Head of Monetary and Economic Department and its Economic Adviser.

Among the topics discussed by the Committee during the past year were the challenges posed by the increasing divergence of macroeconomic conditions among the major advanced economies, which implies that different countries will need to adjust their monetary policy to different degrees and at different times. The Committee paid particular attention to the possible financial market effects that this process of asynchronous monetary policy normalisation might have in both advanced and emerging market economies. The Committee also reviewed the macroprudential measures taken by various country authorities to address vulnerabilities arising from the current macro-financial environment and found that the effectiveness of these policies remained uncertain. Another key topic was the existence of "pockets of risk" in particular sectors, including among emerging market corporates such as property developers, given their rising leverage and foreign currency exposures. Also discussed were the possible implications of market disturbances (such as mid-October's "flash rally" in US Treasury securities), lessons from the ECB's asset quality review and stress test, and the financial stability implications of falling commodity prices.

In addition, a number of in-depth analyses were commissioned from groups of central bank experts. Two of these groups produced public reports during the year.

Market-making and proprietary trading in fixed income markets. This report, issued in November 2014, identified signs of increased fragility in fixed income markets, together with liquidity bifurcation as market-making activity was concentrated in the most liquid instruments and weakened in the less liquid ones. The underlying causes were seen as both conjunctural and structural, and it was difficult to provide a definitive overall assessment of their impact on market liquidity. Given signs that liquidity risks were broadly underpriced in the run-up to the financial crisis, it seemed desirable that the compressed pricing of market-making services seen in the past would give way to liquidity premia that are more consistent with actual market-making capacity and costs. On this basis, the report outlined a number of policy options that, if pursued, would make this outcome more likely.

Central bank operating frameworks and collateral markets. Produced jointly with the Markets Committee for publication in March 2015, the report examined how far central bank operational frameworks influence private collateral markets, including collateral availability, pricing, related market practices, and market performance under stress. After reviewing the evidence for the effects of different central bank choices on collateral markets and their scope, the report suggested a number of metrics and other tools that could aid central banks in their assessments of how their operational choices may affect these markets.

CGFS: www.bis.org/cgfs

Committee on Payments and Market Infrastructures

The Committee on Payments and Market Infrastructures[2] (CPMI) promotes the safety and efficiency of payment, clearing, settlement and reporting systems and arrangements, thereby supporting financial stability and the wider economy. Comprising senior officials from 25 central banks, the CPMI is a global standard setter that aims to strengthen regulation, policy and practices in this field worldwide. It also serves as a forum for central banks to monitor and analyse developments concerning payment, clearing, settlement and reporting within and across jurisdictions and to cooperate in related oversight, policy and operational matters, including the provision of central bank services. The Committee Chair is Benoît Cœuré, a member of the Executive Board of the European Central Bank.

Monitoring implementation of standards for financial market infrastructures

The CPMI-IOSCO *Principles for financial market infrastructures* (PFMI), published in April 2012, set out international standards for systemically important FMIs and specify the responsibilities for the authorities that oversee or regulate them.

Monitoring the implementation of the PFMI is a high priority for the CPMI and involves three phases: Level 1, on the PFMI's adoption in domestic regulatory frameworks; Level 2, on the completeness and consistency of these regulatory frameworks; and Level 3, on the consistency in the outcomes of the PFMI's implementation across jurisdictions.

In May 2014, the CPMI and IOSCO published a progress update on Level 1 of the implementation monitoring, which showed that the 28 participating jurisdictions are making significant progress, even if that progress continues to vary depending on the type of FMI. In 2014, the CPMI and IOSCO initiated Level 2 assessments for central counterparties (CCPs) and trade repositories in the European Union, Japan and the United States. The associated reports were published in February 2015 and showed an overall high level of consistency for these jurisdictions, especially for CCPs. Further Level 2 assessments will be conducted in subsequent rounds. In

[2] The Committee on Payment and Settlement Systems (CPSS) changed its name to the Committee on Payments and Market Infrastructures (CPMI) on 1 September 2014.

addition, in late 2014 the CPMI and IOSCO started an assessment of the observance of responsibilities by authorities.

The following additional guidance is related to the PFMI:

- *Recovery of financial market infrastructures*. In October 2014, the CPMI and IOSCO published the final report on *Recovery of financial market infrastructures*. The report gives guidance to financial market infrastructures such as CCPs on developing plans to enable them to recover from threats to their viability and financial strength that might prevent them from continuing to provide critical services.
- *Critical service providers*. The CPMI published in December 2014 the final version of the *Assessment methodology for the oversight expectations applicable to critical service providers*. The document provides guidance that will help competent authorities assess FMIs' critical service providers against the oversight expectations included in Annex F of the PFMI.
- *Quantitative disclosure*. In February 2015, the CPMI and IOSCO published guidance on the quantitative data that should be regularly disclosed by CCPs. The PFMI state that an FMI should make relevant information publicly available so that the risks related to the CCPs can be properly understood. This new guidance complements the *Disclosure framework* issued in December 2012, which primarily covers qualitative data.

Collateral management services

The report on *Developments in collateral management services*, published by the CPMI in September 2014, describes how such services are changing to address increased collateral demand. It shows how service providers are aiming to give their customers improved tools for monitoring their securities holdings and deploying those securities more efficiently. The report highlights the benefits of these innovations as well as the associated increases in complexity and operational risk.

Harmonisation of OTC derivatives data

In November 2014, the CPMI and IOSCO set up a working group to develop guidance on the harmonisation of key OTC derivatives data, including uniform transaction and product identifiers. Initial consultations will be held in 2015.

Retail payments

The CPMI's report on *Non-banks in retail payments*, published in September 2014, analyses the growing importance of non-banks in retail payments, the possible risks and the differing regulatory approaches of CPMI jurisdictions. The Committee continues to study the impact of a variety of retail payment developments such as faster payment services and the interplay of these services with mobile and internet payments. It is also monitoring developments in decentralised virtual currency schemes.

Cyber resilience in FMIs

The CPMI's report on *Cyber resilience in financial market infrastructures*, published in November 2014, notes the importance of an integrated and comprehensive approach to the cyber resilience of FMIs and the need for international cooperation in this area. The publication aims to raise awareness of the systemic implications of cyber attacks on FMIs. Building on this work, the CPMI and IOSCO have started jointly investigating whether FMIs would benefit from further guidance on cyber resilience.

Red Book statistics

The CPMI published in December 2014 its annual update of the *Statistics on payment, clearing and settlement systems in the CPMI countries*.

CPMI: www.bis.org/cpmi

Markets Committee

The Markets Committee is a forum where senior central bank officials jointly monitor developments in financial markets and assess their implications for market functioning and central bank operations. With a membership comprising 21 central banks, the Committee is chaired by Guy Debelle, Assistant Governor of the Reserve Bank of Australia.

The Committee's discussions during the year were shaped by the divergent monetary policy prospects of the major central banks as well as by falling commodity prices. Among the topics discussed were the drivers of asset price volatility, central bank purchase programmes for private and public sector assets, changes to monetary policy implementation in China, liquidity issues in the Japanese government bond markets, market expectations of prospective policy rate normalisation in the United States, and the aftermath of the discontinuation of the minimum exchange rate of the euro against the Swiss franc in mid-January, including the fallout in the retail FX sector. The impact of these developments on emerging market economies was closely studied.

In addition to monitoring near-term market developments, the Committee also considered longer-term structural market issues such as the international efforts to make reform recommendations for benchmarks in FX markets, the UK Fair and Effective Markets Review, and money market functioning in a negative rate environment. In January 2015, the Committee held a workshop with private sector participants on electronic trading in fixed income markets.

Jointly with the CGFS, the Committee produced a report on *Central bank operating frameworks and collateral markets* (see CGFS section above for details) and reviewed the design of the BIS Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in preparation for the next version in 2016.

Markets Committee: www.bis.org/markets

Central Bank Governance Group

The Central Bank Governance Group comprises nine central bank Governors and is chaired by Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia. It serves as a venue for information exchange on the design and operation of central banks as public policy institutions. The Group also suggests priorities for BIS work carried out on these topics through the almost 50 central banks that make up the Central Bank Governance Network. Central bank officials have access to the results of numerous surveys on governance topics conducted among Network central banks as well as other governance research, and selected material is published.

The Governance Group convened during several BIS bimonthly meetings to study the evolving circumstances of central banks. The Group discussed the auditing and review arrangements for central banks and their reporting obligations, and the governance arrangements for decisions on emergency lending by central banks. The information and insights provided help central banks assess the effectiveness of their own arrangements as well as the alternatives available.

Central Bank Governance Group: www.bis.org/cbgov

Irving Fisher Committee on Central Bank Statistics

The Irving Fisher Committee on Central Bank Statistics (IFC) is a forum for central bank economists and statisticians to address statistical topics related to monetary and financial stability. Governed by the international central banking community, it is hosted by the BIS and associated with the International Statistical Institute (ISI). The IFC has 83 institutional members, including almost all BIS shareholder central banks, and is currently chaired by Turalay Kenç, Deputy Governor of the Central Bank of the Republic of Turkey.

The IFC organised several activities in 2014 with the support of its member central banks and a number of international organisations. One notable project was the production of a report on data-sharing between statistical and supervisory authorities, which outlines a range of good practice and guidance to foster cooperation in this area. In addition, the Committee set up a Global Network of Balance of Payments (BoP) Compilers, which will facilitate the stocktaking of central banks' practices and the sharing of experience in BoP issues. The IFC also supported international initiatives on the development of sectoral financial accounts, potentially a key component of financial stability analyses. Lastly, it furthered its work on the measurement of financial inclusion and related challenges, in close liaison with financial standard-setting bodies.

In terms of meetings, a key event was the seventh biennial IFC conference held in September 2014 to review the statistical implications of the evolving functions and objectives of modern central banks. The IFC also participated in the 2014 Asian Regional Statistics Conference organised by the ISI, which reviewed the challenges posed by increasing household debt in Asia. Finally, it organised with the ECB a virtual seminar on big data, which represent a new source of financial and economic information that could be mobilised by central banks to take timely policy measures and assess the impact of their actions.

IFC: www.bis.org/ifc

Financial Stability Institute

Jointly created by the BIS and the BCBS, the Financial Stability Institute (FSI) assists supervisory authorities and central banks worldwide in strengthening their financial systems. The FSI pursues this mandate by fostering a solid understanding of international financial standards through a range of activities, including high-level meetings; seminars and conferences; FSI Connect, the BIS's online information and learning tool; and monitoring of the implementation of Basel standards in non-BCBS member jurisdictions.

High-level meetings

Aimed at the Deputy Governors of central banks and heads of supervisory authorities, high-level meetings are a key part of the FSI programme of activities. Jointly organised with the BCBS, they have taken place annually for more than a decade in Africa, Asia, Latin America and the Middle East and, occasionally, in central and eastern Europe. They focus on policy discussions relating to global banking standards, emerging financial developments and regional implementation issues.

In 2014, the key themes discussed at these meetings included the impact of Basel III on banks' business models; the trade-offs between risk sensitivity, simplicity and comparability in the international banking standards; the coexistence of the risk-based capital standards for banks with the leverage ratio; and requirements for global and domestic systemically important banks and their cross-border implications.

Seminars and conferences

The 2014 FSI programme comprised 50 events that were attended by about 1,800 central bankers and financial sector supervisors. They included 38 banking events, of which 10 took place in Switzerland and 28 in other jurisdictions. The events in other jurisdictions were organised in cooperation with 15 regional supervisory groups.[3] The main topics covered included the Basel III requirements for liquidity risk; the regulation and supervision of systemically important banks; and the implementation of macroprudential policies and stress-testing methodologies.

Also during 2014, the FSI held nine insurance seminars in collaboration with the International Association of Insurance Supervisors (IAIS) and its regional network. One of these events was a virtual seminar for 119 insurance supervisors from 36 jurisdictions, using a series of five webinars and selected FSI Connect tutorials. This was the first time that the FSI had delivered a virtual seminar.

The remaining three FSI events were directed at supervisory authorities across financial sectors. One was a conference sponsored by the G20's Global Partnership for Financial Inclusion and focused on recent financial standards and their impact on technology-driven approaches to financial inclusion. The other two events were co-organised with the International Association of Deposit Insurers (IADI) and the International Organization of Securities Commissions (IOSCO) dealing with the latest work of these standard setters.

FSI Connect

With more than 10,000 subscribers from over 300 central banks and banking or insurance authorities, FSI Connect offers more than 250 tutorials covering a wide range of regulatory policy and supervisory topics. The 16 tutorials released during 2014 covered key supervisory topics, including the international response to the too-big-to-fail problem; reforms to the over-the-counter derivatives market; policy measures for global systemically important insurers; and the supervisory implications of the recognition, classification and measurement of financial instruments under IFRS 9.

3 Africa: Committee of Bank Supervisors of West and Central Africa (BSWCA); and Southern African Development Community (SADC). Americas: Association of Supervisors of Banks of the Americas (ASBA); Center for Latin American Monetary Studies (CEMLA); and Caribbean Group of Banking Supervisors (CGBS). Asia and the Pacific: Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Working Group on Banking Supervision; South East Asian Central Banks (SEACEN); and Central Banks of South East Asia, New Zealand and Australia (SEANZA) Forum of Banking Supervisors. Europe: European Banking Authority (EBA); and Group of Banking Supervisors from Central and Eastern Europe (BSCEE). Middle East: Arab Monetary Fund (AMF); and Gulf Cooperation Council (GCC) Committee of Banking Supervisors. Other: Group of French-Speaking Banking Supervisors (GSBF); and Group of International Finance Centre Supervisors (GIFCS).

Monitoring implementation of Basel standards in non-BCBS members

The FSI annually surveys non-BCBS members on their implementation of the Basel III framework. The results of this survey are part of the annual BCBS report to the G20 Leaders. In 2014, 116 countries worldwide, including BCBS member jurisdictions, had implemented or were in the process of implementing Basel III.

FSI: www.bis.org/fsi

Activities of BIS-hosted associations

This section reviews the year's principal activities of the three associations hosted by the BIS in Basel.

Financial Stability Board

The Financial Stability Board (FSB) coordinates at the international level the financial stability work of national authorities and international standard-setting bodies, and develops and promotes financial sector policies to enhance global financial stability. Its constitution, membership and framework of committees and management are set out in the FSB's Annual Report. The FSB is chaired by Mark Carney, Governor of the Bank of England.

The FSB was active in a wide range of areas during the year, and several of its policy initiatives were endorsed at the November 2014 Brisbane Summit of the G20 Leaders.

Reducing the moral hazard posed by systemically important financial institutions

The FSB's framework to address the systemic risks and moral hazard associated with systemically important financial institutions (SIFIs) contains three key elements:
- a resolution framework to ensure that all financial institutions can be quickly resolved without destabilising the financial system and exposing the taxpayer to risk of loss;
- higher loss absorbency to reflect the greater risks; and
- more intense supervisory oversight.

Resolution of SIFIs. The FSB in October 2014 reissued the *Key attributes of effective resolution regimes for financial institutions* ("the Key Attributes") to incorporate guidance on their application to non-bank financial institutions and on arrangements for information-sharing that support the effective resolution of cross-border financial institutions. The FSB also published consultative documents on:
- cross-border recognition of resolution action (September 2014);
- recovery and resolution planning for systemically important insurers and identification of critical functions and critical shared services (October 2014); and
- cooperation and information-sharing with host authorities of jurisdictions not represented in crisis management groups where a G-SIFI has a systemic presence (October 2014).

In November 2014, the FSB published a report to the G20 on progress in the reform of resolution regimes and resolution planning for G-SIFIs. This sets out further actions to implement the Key Attributes fully in substance and in scope. It also describes the initial results of the Resolvability Assessment Process, which assesses the resolvability of G-SIFIs at the level of senior officials of the firm's home and key host authorities. The FSB will continue monitoring implementation of the Key Attributes to support implementation across all financial sectors.

The FSB also published proposals on the loss-absorbing and recapitalisation capacity of global systemically important banks (G-SIBs). These were developed in consultation with the BCBS and are intended to form a new minimum standard for Total Loss-Absorbing Capacity (TLAC). These proposals should demonstrate that G-SIBs have sufficient capacity to absorb losses as part of a resolution strategy that minimises the impact on financial stability and ensures the continuity of critical economic functions. The FSB is working with the BCBS and the BIS to undertake comprehensive impact assessment studies to inform the calibration of the Pillar 1 element of the TLAC requirement for all G-SIBs.

Higher loss absorbency. In November 2014, the FSB published the updated list of 30 G-SIBs using end-2013 data and the updated assessment methodology published by the BCBS in July 2013. In addition, the FSB, following consultation with the IAIS and national authorities, identified for 2014 the nine global systemically important insurers (G-SIIs) identified in 2013 and postponed a decision on the G-SII status of reinsurers, pending the IAIS's work to develop the methodology.

More intense supervisory oversight. In April 2014, the FSB published a progress report on enhanced supervision, which describes the changes in supervisory practices since the financial crisis and identifies areas where more work is needed, and *Guidance on supervisory interaction with financial institutions on risk culture*, which sets out a framework to assist supervisors in their assessment of risk culture at firms.

Extending the framework. The FSB and standard-setting bodies are extending the SIFI framework to additional types of financial institutions, and work continues on the *Assessment methodologies for identifying non-bank non-insurer global systemically important financial institutions* that was published for consultation in January 2014.

Improving the OTC derivatives markets

The FSB published further progress reports on implementation of OTC derivatives market reforms in April and November, and in October a report on member jurisdictions' ability to defer to others' regulatory regimes. The FSB in September 2014 published a feasibility study on the aggregation of OTC derivatives trade repository data and has also launched a peer review of trade reporting, with a final report expected around mid-2015.

Transforming shadow banking into resilient market-based finance

In November 2014, the FSB released its fourth annual monitoring report on the global trends and risks of the shadow banking system (credit intermediation involving entities and activities outside the regulated banking system), including innovations and changes that could lead to growing systemic risks and regulatory arbitrage. This presents data as of end-2013 from 25 jurisdictions and the euro area as a whole, covering about 80% of global GDP and 90% of global financial system assets.

In October 2014, the FSB published the *Regulatory framework for haircuts on non-centrally cleared securities financing transactions*, including proposals on numerical haircut floors for non-bank-to-non-bank transactions to ensure that shadow banking activities are fully covered, reduce the risk of regulatory arbitrage and maintain a level playing field. This work should be completed by end-June 2015, with implementation by the end of 2017.

In cooperation with market participants, the FSB also developed for public consultation *Standards and processes for global securities financing data collection and aggregation*, which aim to enhance reporting and transparency of data relevant for financial stability monitoring and policy responses.

Reducing reliance on credit rating agency ratings

The FSB published in May 2014 the final peer review report on national authorities' implementation of the FSB *Principles for reducing reliance on CRA ratings*. This showed uneven progress towards the removal of references to credit rating agency (CRA) ratings from standards, laws and regulations across jurisdictions and the financial sector. The key challenge is to develop alternative standards of creditworthiness and processes so that CRA ratings are not the sole input to credit risk assessment.

Financial benchmarks

An Official Sector Steering Group (OSSG) of regulators and central banks published a report in July 2014 which set out proposals, plans and timelines for the reform and strengthening of existing major interest rate benchmarks and for additional work on the development and introduction of alternative benchmarks. The OSSG will continue to monitor and oversee the implementation of the reforms set out in the report.

In September 2014, the FSB published a report on foreign exchange rate benchmarks, setting out recommendations for reform in the FX markets and in the benchmark rates that have been identified as the most important by market participants.

Addressing data gaps

The FSB has developed a common data template for G-SIBs to analyse their exposures and funding dependencies by counterparty, and concentration by country, sector, currency, maturity and instrument. An initial set of these data has been collected since 2013 by an international data hub hosted by the BIS, with the initiative planned for completion in 2016. In September 2014, the FSB and IMF published their *Fifth progress report on the implementation of the G-20 data gaps initiative,* reporting enhancements on data available for policy work, surveillance, financial stability and debt analysis.

Advancing transparency through the legal entity identifier

The objective of the global legal entity identifier (LEI) system is to provide unique identification of parties to financial transactions across the globe. The Global LEI Foundation was officially established by the FSB in June 2014 as a not-for-profit foundation under Swiss law to act as the operational arm of the LEI system under the oversight of the LEI Regulatory Oversight Committee.

Strengthening accounting standards

The G20 and FSB support the development of a single set of high-quality global accounting standards. The International Accounting Standards Board and the Financial Accounting Standards Board are developing new standards that introduce forward-looking expected loss provisions for loan losses, and the FSB has encouraged them to monitor consistent implementation of their standards and continue to seek opportunities for further convergence. The FSB held a roundtable of key stakeholders to discuss these issues in April 2015.

Enhanced Disclosure Task Force

The Enhanced Disclosure Task Force (EDTF) is a private sector initiative to enhance the risk disclosure practices of major banks. It issued principles and recommendations for such disclosures in October 2012, and published two surveys (in 2013 and 2014) of the level and quality of implementation in the major banks' annual reports. The FSB has asked the EDTF to undertake another survey in 2015.

Monitoring implementation and strengthening adherence to international standards

The FSB's Coordination Framework for Implementation Monitoring mandates that implementation of reforms in priority areas (those deemed by the FSB to be particularly important for global financial stability) should be subject to more intensive monitoring and detailed reporting. The current list of priority areas comprises the Basel III framework; OTC derivatives market reforms; compensation practices; policy measures for G-SIFIs; resolution frameworks; and shadow banking. Detailed reporting of implementation progress in all of these areas, conducted in cooperation with relevant standard-setting bodies, is continuing.

The FSB's most intensive monitoring mechanism is the peer review programme, which evaluates member jurisdictions' adoption of international financial standards and FSB policies. In addition to thematic peer reviews, the FSB completed in 2014 the country peer reviews of Indonesia, Germany and the Netherlands.

In December 2014, the FSB published its fourth annual update on global adherence to regulatory and supervisory standards on international cooperation and information exchange. This provides information on all jurisdictions evaluated under the initiative.

Impact of regulatory reforms on emerging market and developing economies

As requested by the G20, the FSB reports on the significant unintended consequences in emerging market and developing economies of internationally agreed reforms and on measures taken to address them. In November 2014, the FSB published an update of monitoring developments, drawing upon discussions in FSB workstreams and Regional Consultative Groups as well as input by standard-setting bodies and international financial institutions from their own monitoring and assessment processes.

Financial regulatory factors affecting the availability of long-term finance and other reforms

In August 2013, the FSB updated the G20 Finance Ministers and Central Bank Governors on financial regulatory factors affecting the supply of long-term investment finance. The FSB's monitoring of this issue will continue as part of a broader study of long-term finance being undertaken for the G20 by international organisations.

In October 2014, the FSB, working with the IMF and OECD and in response to a request from the G20, published a report on potential cross-border financial stability implications related to national structural banking reforms. The FSB will monitor developments related to these reforms and has undertaken to report again to the G20 in 2016.

FSB: www.financialstabilityboard.org

International Association of Deposit Insurers

The International Association of Deposit Insurers (IADI) is the global standard-setting body for deposit insurance systems. It contributes to the stability of financial systems by advancing standards and guidance for effective deposit insurance and promoting international cooperation among deposit insurers, bank resolution authorities and other safety net organisations.

The number of organisations affiliated with IADI stands at 99, comprising 79 deposit insurers as members, seven central banks and bank supervisors as associates, and 13 institutional partners. The membership has grown by one fifth in the past two years, thanks to the outreach within the IADI regions. Almost 70% of all jurisdictions with explicit deposit insurance systems are represented within IADI's membership.

Jerzy Pruski, President of the Management Board of Poland's Bank Guarantee Fund, serves as the President of IADI and the Chair of its Executive Council.

During the year, IADI continued to focus on the strategic priorities established in 2013.

Core principles for effective deposit insurance systems

IADI guidance on establishing and enhancing deposit insurance schemes is outlined in the *Core principles for effective deposit insurance systems*. In October 2014, IADI and its international partners completed their update of the Core Principles, drawing on lessons learned from the financial crisis of 2007–09, which demonstrated the importance of maintaining depositor confidence in the financial system and the key role that depositor protection plays in preserving that confidence.

The revised Core Principles strengthen the current standards in several areas, including speed of reimbursement, deposit insurance coverage, funding and governance, adding more guidance on the roles deposit insurers should play in crisis preparedness, crisis management and resolution regimes. The revised Core Principles seek to strike an appropriate balance between improving the effectiveness of deposit insurance systems and maintaining the flexibility required for an internationally applicable standard.

As a component of the FSB Compendium of 12 Key Standards for Sound Financial Systems, the IADI Core Principles are used by the IMF and World Bank in the context of the Financial Sector Assessment Program reviews as well as by individual jurisdictions to assess the effectiveness of their deposit insurance systems and practices.

IADI's International Conference and events

The Revised Core Principles were the focus of IADI's 14th Annual General Meeting and International Conference, held in October 2014 in Port of Spain, Trinidad and

Tobago. The conference outlined the challenges in advancing the understanding of and compliance with the revised Core Principles as well as their applicability to a diverse range of deposit insurance mandates, settings and structures.

In September 2014, IADI and the FSI held their fourth annual joint seminar on bank resolution, crisis management and deposit insurance issues. Since 2008, IADI, in cooperation with the FSI, has produced eight online tutorials on deposit insurance systems.

IADI also hosted global and regional seminars on various topics, including: deposit insurance funding; bail-in and deposit insurance; cross-border cooperation and implementation of effective recovery resolution planning; cross-border cooperation for capacity-building; effective delivery of deposit insurance services; and global trends and effective practices on deposit insurance and bank resolution. These topics inform IADI's research agenda to better reflect the role of deposit insurance in financial stability.

Enhancement of IADI's research framework

IADI made further progress with research projects on enhanced guidance for ex ante funding and multiple deposit insurance systems, the role of deposit insurers in bail-in mechanisms, and the evolution of integrated protection schemes, and it released two research papers on Islamic deposit insurance systems. IADI has also begun research initiatives on trends and guidance for establishing a deposit insurance fund target ratio, a bank resolution tool for purchasing assets and assuming deposit liabilities, and the unique characteristics of a resolution strategy for failing credit unions.

Furthermore, the IADI Secretariat has been enhanced by the establishment of a small research unit. The unit supports IADI's membership in the FSB Resolution Steering Group, including IADI's contribution to the workstream on funding resolution conducted under the FSB's cross-border crisis management committee.

IADI has enhanced its database of global deposit insurance systems through updates from research surveys, including its own annual online survey on deposit insurance, the latest of which received a record number of respondents.

IADI: www.iadi.org

International Association of Insurance Supervisors

The International Association of Insurance Supervisors (IAIS) is the global standard-setting body for the insurance sector. Its purpose is to promote effective and globally consistent supervision and contribute to global financial stability so that policyholders benefit from fair, safe and stable insurance markets. Felix Hufeld, President of the German Federal Financial Supervisory Authority (BaFin), chairs the IAIS Executive Committee.

New five-year strategic plan, organisational reforms

In October 2014, the general meeting approved the last phase of a comprehensive multi-year strategic, structural and procedural reform initiative. The *Strategic plan and financial outlook 2015–19* stresses the IAIS's role as the thought leader for global insurance. The IAIS also improved its governance structure by discontinuing the right to private sector observership, and it adopted new policies and procedures to increase transparency and promote efficiency in its engagement with stakeholders.

Macroprudential surveillance

In December 2014, the IAIS released an internet-based toolkit to assist its members in designing and conducting macroprudential surveillance. The toolkit includes basic and advanced macroprudential indicators and allows a member to input data from its own jurisdiction for benchmarking against regional and worldwide data. The IAIS will continue to refine and supplement the toolkit.

Supporting material

In October 2014, the IAIS adopted issues papers on combating bribery and corruption and on approaches to group corporate governance, focused on the impact for control functions. It also adopted application papers on approaches to conduct of business supervision and on supervisory colleges.

ComFrame

In order to address the complexity and operational scope of internationally active insurance groups (IAIGs), the IAIS has since 2011 been designing ComFrame – a Common Framework for the Supervision of IAIGs. ComFrame is a set of international supervisory requirements focusing on the effective group-wide supervision of IAIGs (qualitative, quantitative and supervisory processes), building upon and expanding the high-level requirements currently set out in the IAIS Insurance Core Principles (ICPs). ComFrame is designed to assist supervisors in collectively addressing group-wide activities and risks, identifying and avoiding regulatory gaps, and coordinating supervisory actions under the remit of a group-wide supervisor. Field testing of ComFrame began in 2014 in conjunction with more than 30 large international firms. This phase will continue until 2018, when ComFrame is scheduled for formal adoption. Members are to begin implementation of ComFrame in 2019.

Global insurance capital standards

In October 2014, the IAIS finalised the first ever global insurance capital standard, the Basic Capital Requirements (BCR) for global systemically important insurers (G-SIIs). The BCR represents the first step of a long-term project to develop risk-based, group-wide global insurance capital standards. The second step is the development of higher loss absorbency requirements for G-SIIs, due to be completed by end-2015. The final step will be a risk-based group-wide global insurance capital standard (ICS) within ComFrame, applying to IAIGs and due to be developed by the end of 2016. It will be further refined and tested before being applied to IAIGs from 2019.

Multilateral Memorandum of Understanding

Insurance supervisors that are signatories to the IAIS Multilateral Memorandum of Understanding (MMoU) participate in a global framework for cooperation and information exchange. The memorandum sets minimum standards to which signatories must adhere, and all applicants are subject to review and approval by an independent team of IAIS members. By participating in the MMoU, supervisors are better able to promote the financial stability of cross-border insurance operations for the benefit of consumers. Six new signatories joined the MMoU during the year, bringing the total number of signatory authorities to 45 jurisdictions representing more than 62% of worldwide premium volume.

Coordinated Implementation Framework

The Coordinated Implementation Framework (CIF), adopted in October 2013, brings together the IAIS approach to implementing its supervisory material. The CIF sets forth key principles that provide guidance to the work programme, which encompasses various initiatives to assess and identify its members' observance of IAIS ICPs. This information is then used to inform the programme of supervisory development, which is executed through regional outreach and the development of regional implementation plans.

Central to the CIF is leveraging the work of partners such as the Financial Stability Institute, the World Bank and the Asian Development Bank. Another key partner is the Access to Insurance Initiative (A2ii), which advances capacity-building in inclusive insurance markets, a key focus for standard-setting bodies under the G20's Global Partnership for Financial Inclusion.

Self-assessment and peer reviews

As part of a comprehensive programme covering all the ICPs, in October the IAIS released its aggregate report containing the findings from a self-assessment and peer review conducted on ICP 4 (Licensing), ICP 5 (Suitability of Persons), ICP 7 (Corporate Governance) and ICP 8 (Risk Management and Internal Controls). The IAIS aims to review all ICPs by the end of 2016. The outcome of these assessments will help identify areas in which the ICPs may need to be revised; the results also feed into IAIS education activities.

IAIS: www.iaisweb.org

Economic analysis, research and statistics

The BIS's in-depth economic analysis and research on monetary and financial stability policy issues is conducted by its Monetary and Economic Department (MED). Researchers are located at the head office in Basel and at the BIS Representative Offices in Hong Kong SAR and Mexico City. The BIS also compiles and disseminates international statistics on financial institutions and markets. Through its economic analysis, research and statistics, the BIS helps to meet the needs of monetary and supervisory authorities for policy insight and data.

Analysis and research in the Basel Process

Analysis and research at the BIS are the cornerstone of its background notes for meetings, analytical support for the Basel-based Committees, and the Bank's own publications. Research seeks to strike a balance between responsiveness to short-term issues and proactiveness in identifying what will become key themes in future.

Collaborative efforts with central bank and academic researchers stimulate broad dialogue on the policy questions that merit deeper study. To promote such engagements, the BIS set up in 2014 a Central Bank Research Fellowship (CBRF) Programme, which complements the visiting fellows programme for academic researchers. And, as a broader forum for interactions between researchers from academia and central banks, a BIS Research Network (BISRN) was launched at a conference in September 2014. The BISRN is intended as an informal grouping of active researchers from academia and central banks who meet at regular conferences to share research findings on monetary and financial stability.

The BIS also organises conferences and workshops to bring together participants from policy, research and business. The flagship event for central bank Governors is the BIS Annual Conference. In June 2014, the 13th BIS Annual Conference focused on rising debt in the financial system, the economics of credit booms, and the resulting policy challenges.

Most BIS analysis and research is published on the Bank's website, and in the *Annual Report*, the *BIS Quarterly Review*, *BIS Papers* and *BIS Working Papers*. BIS economists also publish in professional journals and other external publications.

BIS research: www.bis.org/forum/research.htm

Research topics

Reflecting the Bank's mission, BIS research centres on monetary and financial stability. Special attention is given to changes in financial intermediation; new frameworks for monetary and financial stability policy; and the global economy and spillovers. Under these headings, the specific topics taken up in the year included financial risk-taking versus risk-taking in the real economy; the interaction of monetary policy and macroprudential policies; pre- and post-boom resource misallocations; macroeconomic and financial implications of falling oil prices; and channels of cross-border monetary spillovers and sovereign credit risk.

The research on financial intermediation aims at understanding the interaction between institutions and financial markets. Analysing the way different intermediaries operate and markets function is an important foundation for this work. The perspectives gained help policymakers evaluate changes in the regulatory environment for financial stability and monetary policies, nationally and internationally. They underpin the monitoring of financial vulnerabilities and cross-border spillovers, and they inform the design of regulation and supervision, crisis management tools and resolution techniques as well as various aspects of monetary policy frameworks, including strategy, tactics and day-to-day implementation.

Over the past year, work in this area has included research on the risks associated with increased market-based intermediation, rapidly rising debt issuance by emerging market corporates, post-crisis changes in bank business models, and banks' adjustments to new capital regulation.

Research on post-crisis monetary and financial stability policy frameworks aims to strengthen the analytical foundations of central bank policy. The gap between the theory and practice of central bank policy has widened as central banks have adopted increasingly unconventional measures, and the lines between policies targeting financial, macroeconomic and price stability have become increasingly blurred.

Specific projects in this area have studied the cost of deflations during the past 140 years; the effectiveness of unconventional central bank policies and the associated exit challenges; and the links between liquidity regulation and central banks' role as lender of last resort.

Research on the global economy and spillovers focuses on how monetary and financial stability is affected by the tight real and financial integration of the global economy. The importance of such spillovers is reflected in the increasingly popular notion of "global liquidity", in both academic and policy circles.

Research in this area during the year took up the strengths and weaknesses in the international monetary and financial system; the global role of the dollar; the mechanisms that drive global credit growth; the spillovers from unconventional monetary policies; and drivers for lending and borrowing decisions at internationally active banks. The BIS international banking statistics provide key information for these studies.

International statistical initiatives

The BIS's unique set of international banking and financial statistics underpins the Basel Process by supporting the analysis of global financial stability. This involves close cooperation with other financial international organisations, especially through the BIS's participation in the Inter-Agency Group on Economic and Financial Statistics (IAG). This is the body tasked with closing the data gaps revealed by the financial crisis, in accord with the FSB and IMF recommendations to the G20.[4]

To close such gaps, the CGFS approved in 2011–12 enhancements to a key set of BIS data, the international banking statistics reported by central banks under the guidance of the CGFS. Completed in early 2015, these enhancements extend the coverage of the locational and consolidated banking statistics from banks' international activities to their domestic positions, and provide more information on banks' counterparties, specifically on their location and sector.

The BIS also publishes a variety of other statistics on its website, including indicators on derivatives, debt securities, effective exchange rates, foreign exchange markets, payment systems, property prices, credit to the private sector and global liquidity. This statistical work focuses on long-term financial stability indicators to support the BIS's own research agenda as well as the initiatives of the Basel Process and the G20. It relies extensively on the Data Bank, which contains, in particular, key economic indicators shared among BIS member central banks. These data are being expanded, and new tables and charts introduced, as part of further revisions to the BIS's statistical publications that will be implemented in September 2015.

Finally, the BIS hosts the International Data Hub, where information about systemically important financial institutions is stored and analysed on behalf of a limited number of participating supervisory authorities. The analysis is meant to help participating supervisors engage with G-SIBs and to enrich the dialogue between supervisors across jurisdictions. The first phase of this initiative, covering firms' credit exposures, was completed in 2013. The second phase, now under way, will assemble data covering these firms' funding dependencies.

BIS statistics: www.bis.org/statistics

Cooperation with other central bank initiatives

The BIS contributes to the activities of central banks and regional central bank organisations. During the past year, it cooperated with these groups on the topics outlined below:

- CEMLA (Center for Latin American Monetary Studies) – foreign exchange intervention, payment and settlement systems, and regional banking integration;
- FLAR (Latin American Reserve Fund) – reserves management;

4 The IAG comprises the BIS, the ECB, Eurostat, the IMF, the OECD, the United Nations and the World Bank (www.principalglobalindicators.org). These organisations also sponsor the Statistical Data and Metadata Exchange (SDMX), whose standards the BIS uses for its collection, processing and dissemination of statistics (www.sdmx.org).

- MEFMI (Macroeconomic and Financial Management Institute of Eastern and Southern Africa) – payment and settlement systems, and reserves management;
- SEACEN (South East Asian Central Banks) Research and Training Centre – central bank governance, regional banking integration, macroeconomic and monetary policy challenges, and payment and settlement systems; and
- World Bank – governance and oversight of central bank reserves management.

Financial services

Through its Banking Department, the BIS offers a wide range of financial services designed to support the reserves management activities of central banks and other official monetary authorities, and to foster international cooperation in this area. Some 140 institutions, as well as a number of international organisations, make use of these services.

Safety and liquidity are the key features of BIS credit intermediation, which is supported by rigorous internal risk management. Independent control units reporting directly to the BIS Deputy General Manager monitor and control the related risks. A compliance and operational risk unit monitors operational risk, while financial risks – ie credit, liquidity and market risks – are overseen by a risk control unit that is also responsible for ensuring an integrated approach to risk management.

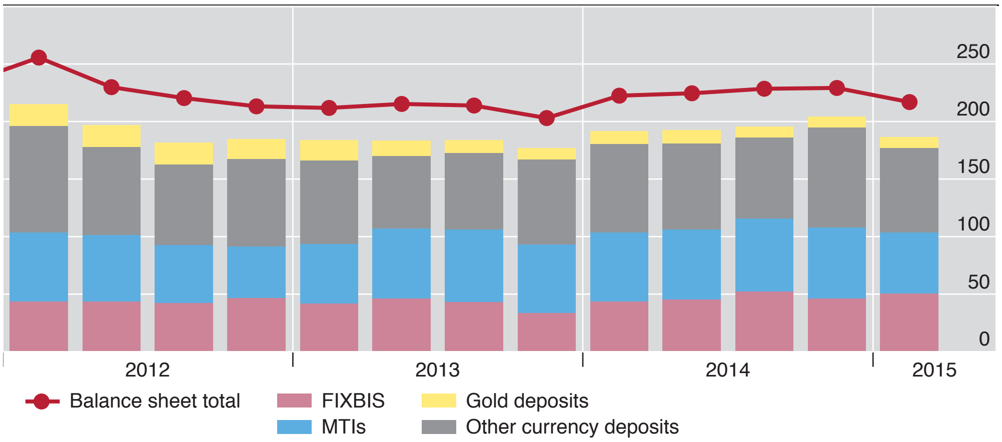
BIS financial services are provided from two linked trading rooms: one in Basel, at the Bank's head office; and one in Hong Kong SAR, at its Representative Office for Asia and the Pacific.

Scope of services

As an institution owned and governed by central banks, the BIS is well placed to understand the needs of reserves managers – their primary focus on safety and liquidity as well as their evolving need to diversify the exposures arising from growing foreign exchange reserves. To meet those needs, the BIS offers investments that vary by currency, maturity and liquidity. In addition, the Bank provides short-term liquidity facilities and extends credit to central banks, usually on a collateralised

Balance sheet total and deposits by product

End-quarter figures, in billions of SDR



The sum of the bars indicates total deposits.

basis. Moreover, the Bank can act as trustee and collateral agent in connection with international financial operations.

Tradable instruments are available, in maturities ranging from one week to five years, in the form of Fixed-Rate Investments at the BIS (FIXBIS), Medium-Term Instruments (MTIs) and products with embedded optionality (Callable MTIs). These instruments can be bought or sold throughout the Bank's dealing hours. Also offered are money market placements, such as sight/notice accounts and fixed-term deposits.

On 31 March 2015, total deposits stood at SDR 186.7 billion; about 95% of those deposits are denominated in currencies and the remainder in gold (see graph).

The Bank transacts foreign exchange and gold on behalf of its customers, thereby providing access to a large liquidity base in the context of the rebalancing of central banks' reserve portfolios. The Bank's foreign exchange services encompass spot transactions in major currencies and Special Drawing Rights (SDR) as well as swaps, outright forwards, options and dual currency deposits (DCDs). In addition, the Bank provides gold services that include buying and selling, sight accounts, fixed-term deposits, earmarked accounts, quality upgrading, refining and location exchanges.

The BIS provides asset management products. The products, which consist predominantly of sovereign securities and high-grade fixed income instruments in major reserve currencies, are available as (i) dedicated portfolio mandates tailored to each customer's preferences; or (ii) BIS Investment Pools (BISIPs), which are open-end fund structures that allow customers to invest in a common pool of assets. The BISIP structure is also used for the Asian Bond Fund (ABF) initiative sponsored by EMEAP (the Executives' Meeting of East Asia-Pacific Central Banks) to foster the development of local currency bond markets. Further initiatives developed with a group of advising central banks have also been based on the BISIP structure. These include the BISIP ILF1 (a US inflation-protected government securities fund) and the BISIP CNY (a domestic Chinese sovereign fixed income fund).

The BIS Banking Department hosts global and regional meetings, as well as seminars and workshops on reserves management issues. These gatherings facilitate the exchange of knowledge and experience among reserves managers and promote the development of investment and risk management capabilities in central banks and international organisations. The Department also supports central banks in reviewing and assessing their reserves management practices.

Representative Offices

The BIS has a Representative Office for Asia and the Pacific (the Asian Office), located in Hong Kong SAR, and a Representative Office for the Americas (the Americas Office), located in Mexico City. The Representative Offices promote cooperation and foster the exchange of information and data within each region by organising meetings, supporting regional institutions and Basel-based committees, and conducting research. The Asian Office also provides banking services to the region's monetary authorities. It is also through the office in Hong Kong that the Financial Stability Institute delivers a programme of meetings and seminars in the region that are closely tailored to local priorities.

As part of the overall BIS research programme, economists in the Representative Offices work with academics from around the world. In addition, both offices have recently developed secondment programmes to deepen research collaboration with member central banks in their respective regions. Papers based on research carried out in the Representative Offices, and published in BIS reports or external journals, have been used to inform policy discussions in various central bank meetings.

The Asian Office

The Asian Office's research activities are guided by the Asian Consultative Council (ACC), comprising the Governors of the 12 BIS member central banks in the Asia-Pacific region.[5] In April 2014, Governor Amando Tetangco of Bangko Sentral ng Pilipinas succeeded Governor Choongsoo Kim of the Bank of Korea as Chair of the Council.

Economists in the Asian Office carried out research on two themes endorsed by the ACC. On the monetary policy side, the theme was the expanding boundaries of monetary policy in Asia and the Pacific. The related policy issues were discussed at a research workshop held in Hong Kong in July 2014. On the financial stability side, the theme was cross-border financial linkages, which were the subject of a research conference hosted by the Reserve Bank of New Zealand in October 2014 in Wellington.

In the Asian Consultative Council's meeting in February 2015 in Manila, the Governors endorsed a new theme, "Financial systems and the real economy", to guide policy research in the Asian Office over the next two years.

The Asian Office organised 10 high-level BIS policy meetings, most held jointly with a central bank or with either the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) or the South East Asian Central Banks (SEACEN).

The ACC Governors meet with others from around the world in a Special Governors' Meeting, which in February 2015 was held in Manila with Bangko Sentral ng Pilipinas as host. For the fifth consecutive year, the event included a roundtable with the chief executive officers of large financial institutions in the region. The discussions covered issues related to financial market volatility and liquidity.

Other policy discussions organised by the Asian Office were the 17th meeting of the Working Party on Monetary Policy in Asia, hosted by the Central Bank of Malaysia in May in Kuala Lumpur; the BIS-SEACEN Exco Seminar, hosted by the Central Bank of Nepal in September in Kathmandu; and the 11th Asia-Pacific High-Level Meeting on Banking Supervision, co-organised with the EMEAP Working Group on Banking Supervision and the Basel Committee and hosted by Bangko Sentral ng Pilipinas in February in Manila.

The Americas Office

The Americas Office develops its activities under the guidance of the Consultative Council for the Americas (CCA). Comprising the Governors of eight BIS member central banks in the region, the CCA is chaired by José Darío Uribe, Governor of the Bank of the Republic, Colombia.[6] The work of the Americas Office centres on three main areas: research, central bank operations and financial stability.

Research is organised mainly through networks, under the direction of a Scientific Committee. The research network on "The introduction of financial stability considerations into central bank policy models" presented its findings in January 2015 at a conference hosted by the Americas Office. A newly established research network focuses on the commodity cycle and its macroeconomic and financial stability implications. In May 2014, the Bank of the Republic, Colombia,

5 The 12 central banks are those of Australia, China, Hong Kong SAR, India, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand.

6 The eight central banks are those of Argentina, Brazil, Canada, Chile, Colombia, Mexico, Peru and the United States.

hosted the Fifth Annual CCA research conference in Bogotá on the "Challenges from changing international financial conditions".

Work relating to central bank operations is led by the Consultative Group of Directors of Operations (CGDO), a forum for central bank officials who typically oversee open market and foreign exchange operations as well as reserves management. Group members held regular teleconferences to monitor and exchange views on financial market developments and central bank operations. Their study group's report on "Currency carry trades in Latin America" was published as *BIS Papers*, no 81.

A second annual meeting of the Consultative Group of Directors of Financial Stability (CGDFS) was held in November 2014 in Panama. Group members reviewed the main topics analysed by their home institutions' financial stability departments and discussed their implications. A working group was set up to study the effectiveness of macroprudential policies based on detailed data obtained from credit registries.

Another notable event was the first roundtable of the CCA Governors and the chief executive officers of large financial institutions active in the region held in April 2014 in São Paulo. The topics discussed included the regional impact of tighter global monetary conditions; the region's financial infrastructure; bank regulation and supervision; and regional banking integration.

In August 2014, the Americas Office also co-organised with CEMLA a roundtable in Montevideo on monetary policy spillovers. Furthermore, it contributed to FSB regional consultative group meetings and regional conferences, and supported the 18th BIS Working Party for Monetary Policy in Latin America, hosted by the Bank of Mexico in September 2014.

Governance and management of the BIS

The governance and management of the Bank are conducted at three principal levels: the General Meeting of BIS member central banks; the BIS Board of Directors; and BIS Management.

BIS member central banks

Bank of Algeria
Central Bank of Argentina
Reserve Bank of Australia
Central Bank of the Republic of Austria
National Bank of Belgium
Central Bank of Bosnia and Herzegovina
Central Bank of Brazil
Bulgarian National Bank
Bank of Canada
Central Bank of Chile
People's Bank of China
Bank of the Republic (Colombia)
Croatian National Bank
Czech National Bank
National Bank of Denmark
Bank of Estonia
European Central Bank
Bank of Finland
Bank of France
Deutsche Bundesbank (Germany)
Bank of Greece
Hong Kong Monetary Authority
Magyar Nemzeti Bank (Hungary)
Central Bank of Iceland
Reserve Bank of India
Bank Indonesia
Central Bank of Ireland
Bank of Israel
Bank of Italy
Bank of Japan
Bank of Korea
Bank of Latvia
Bank of Lithuania
Central Bank of Luxembourg
National Bank of the Republic of Macedonia
Central Bank of Malaysia
Bank of Mexico
Netherlands Bank
Reserve Bank of New Zealand
Central Bank of Norway
Central Reserve Bank of Peru
Bangko Sentral ng Pilipinas (Philippines)
National Bank of Poland
Bank of Portugal
National Bank of Romania
Central Bank of the Russian Federation
Saudi Arabian Monetary Agency
National Bank of Serbia
Monetary Authority of Singapore
National Bank of Slovakia
Bank of Slovenia
South African Reserve Bank
Bank of Spain
Sveriges Riksbank (Sweden)
Swiss National Bank
Bank of Thailand
Central Bank of the Republic of Turkey
Central Bank of the United Arab Emirates
Bank of England
Board of Governors of the Federal Reserve System (United States)

The General Meeting of BIS member central banks

Sixty central banks and monetary authorities are currently members of the BIS and have rights of voting and representation at General Meetings. The Annual General Meeting (AGM) is held no later than four months after 31 March, the end of the BIS financial year. The AGM approves the annual report and the accounts of the Bank and decides on the distribution of a dividend, makes adjustments in the allowances paid to Board members and elects the Bank's auditor.

The BIS Board of Directors

The Board is responsible for determining the strategic and policy direction of the BIS, supervising Management and fulfilling the specific tasks given to it by the Bank's Statutes. The Board meets at least six times a year.

The Board may have up to 21 members, including six ex officio Directors comprising the central bank Governors of Belgium, France, Germany, Italy, the United Kingdom and the United States. Each ex officio member may appoint another member of the same nationality. Nine Governors of other member central banks may be elected to the Board.

In addition, one member of the Economic Consultative Committee (see page 134) serves as observer to BIS Board meetings on a rotating basis. The observer participates in the Board's discussions and may be a member of one or more of the Board's four advisory committees, described below.

The Board elects a Chairman from among its members for a three-year term and may elect a Vice-Chairman.

Four advisory committees, established pursuant to Article 43 of the Bank's Statutes, assist the Board in its work:

- The Administrative Committee reviews key areas of the Bank's administration, such as budget and expenditures, human resources policies and information technology. The Committee meets at least four times a year. Its Chairman is Jens Weidmann.
- The Audit Committee meets with internal and external auditors, as well as with the compliance unit. Among its duties is the examination of matters related to the Bank's internal control systems and financial reporting. The Committee meets at least four times a year and is chaired by Stephen S Poloz.
- The Banking and Risk Management Committee reviews and assesses the Bank's financial objectives, the business model for BIS banking operations and the risk management frameworks of the BIS. The Committee meets at least once a year. Its Chairman is Stefan Ingves.
- The Nomination Committee deals with the appointment of members of the BIS Executive Committee and meets on an ad hoc basis. It is chaired by the Board's Chairman, Christian Noyer.

Board of Directors[7]

Chairman: Christian Noyer, Paris
Mark Carney, London
Agustín Carstens, Mexico City
Jon Cunliffe, London

[7] As at 1 June 2015. The list includes the rotating observer mentioned above.

Andreas Dombret, Frankfurt am Main
Mario Draghi, Frankfurt am Main
William C Dudley, New York
Stefan Ingves, Stockholm
Thomas Jordan, Zurich
Klaas Knot, Amsterdam
Haruhiko Kuroda, Tokyo
Anne Le Lorier, Paris
Fabio Panetta, Rome
Stephen S Poloz, Ottawa
Raghuram G Rajan, Mumbai
Jan Smets, Brussels
Alexandre A Tombini, Brasília
Ignazio Visco, Rome
Jens Weidmann, Frankfurt am Main
Janet L Yellen, Washington
Zhou Xiaochuan, Beijing

Alternates

Stanley Fischer, Washington
Paul Fisher, London
Jean Hilgers, Brussels
Joachim Nagel, Frankfurt am Main
Marc-Olivier Strauss-Kahn, Paris
Emerico Zautzik, Rome

In memoriam

It was with great sadness that the Bank learned of the death of Karl Otto Pöhl on 9 December 2014 at the age of 85. A former President of the Deutsche Bundesbank, Mr Pöhl was a member of the BIS Board of Directors from 1980 to 1991.

BIS Management

BIS Management is under the overall direction of the General Manager, who is responsible to the Board of Directors for the conduct of the Bank. The General Manager is assisted by the Deputy General Manager and advised by the Executive Committee of the BIS. The Executive Committee, chaired by the General Manager, further comprises the Deputy General Manager; the Heads of the three BIS departments – the General Secretariat, the Banking Department and the Monetary and Economic Department; the Economic Adviser and Head of Research; and the General Counsel. Other senior officials are the Deputy Heads of the departments and the Chairman of the Financial Stability Institute.

General Manager	Jaime Caruana
Deputy General Manager	Hervé Hannoun
Secretary General and Head of General Secretariat	Peter Dittus
Head of Banking Department	Peter Zöllner

Head of Monetary and Economic Department	Claudio Borio
Economic Adviser and Head of Research	Hyun Song Shin
General Counsel	Diego Devos
Deputy Head of Monetary and Economic Department	Philip Turner
Deputy Secretary General	Monica Ellis
Deputy Head of Banking Department	Jean-François Rigaudy
Chairman, Financial Stability Institute	Josef Tošovský

In memoriam

It was with deep regret that the Bank learned of the death of Baron Alexandre Lamfalussy on 9 May 2015 at the age of 86. Mr Lamfalussy was General Manager of the BIS between May 1985 and December 1993. He joined the Bank in 1976 as Economic Adviser and Head of the Monetary and Economic Department and became Deputy General Manager in 1981. Many significant events in the Bank's history occurred under Mr Lamfalussy's leadership, reflecting his desire for the BIS to make a tangible contribution to international monetary and financial stability. These included the signing of the Basel Capital Accord, the establishment of the Group of Payment System Experts (now the Committee on Payments and Market Infrastructures), and the expansion of the BIS international banking statistics, now a major reference source for economists and other researchers.

BIS budget policy

Management begins preparing the annual BIS expenditure budget by establishing an overall business plan and financial framework. Within that context, business areas specify their detailed plans and resource requirements. The process of reconciling detailed business plans, objectives and overall resources culminates in a draft budget, which must be approved by the Board before the start of the financial year.

The budget distinguishes between administrative and capital expenditures. In 2014/15, these expenditures collectively amounted to CHF 296.8 million. The Bank's overall administrative expense amounted to CHF 277.9 million.[8] Management and staff expense – including remuneration, pensions, and health and accident insurance – amounts to around 70% of administrative expenditure, comparable to the ratio seen in organisations similar to the BIS. New staff positions were added during the year in accordance with the Bank's business plan, which emphasised economic research, the Basel regulatory process and BIS banking activities.

[8] The financial statements report a total administrative expense of CHF 356.2 million. That figure consists of the CHF 277.9 million actual administrative expense reported here plus CHF 78.3 million of financial accounting adjustments for post-employment benefit obligations. This additional expense is not included in the budget for the coming financial year because it depends on actuarial valuations as at 31 March, which in turn are not finalised until April, after the budget has been set by the Board.

The other major categories of administrative spending are information technology (IT), buildings and equipment, and general operational costs, each accounting for about 10%.

Capital spending, relating mainly to buildings and IT investment, can vary significantly from year to year depending on projects in progress. For 2014/15, capital expenditure amounted to CHF 18.9 million.

BIS remuneration policy

At the end of the 2014/15 financial year, the BIS employed 623 staff members[9] from 57 countries. The jobs performed by BIS staff members are classified into job grades associated with a structure of salary ranges. The salaries of individual staff members move within the ranges of the salary structure on the basis of performance.

Every three years, a comprehensive survey benchmarks BIS salaries against compensation in comparable institutions and market segments, with adjustments taking place as of 1 July in the following year. In benchmarking, the Bank focuses on the upper half of market compensation in order to attract highly qualified staff. The analysis takes into account the differing rates of taxation on compensation at the surveyed institutions.

In years between comprehensive salary surveys, the salary structure is adjusted as of 1 July on the basis of Switzerland's inflation rate and the weighted average real wage development in industrial countries. As of 1 July 2014, this adjustment produced a decrease of 0.3% in the salary structure.

The salaries of senior officials are also regularly benchmarked against compensation in comparable institutions and market segments. As of 1 July 2014, the annual remuneration of senior officials, before expatriation allowances, is based on the salary structure of CHF 754,730 for the General Manager;[10] CHF 638,620 for the Deputy General Manager; and CHF 580,560 for Heads of Department.

BIS staff members have access to a contributory health insurance plan and a contributory defined benefit pension plan. At the Bank's headquarters, non-Swiss staff members recruited from abroad, including senior officials, are entitled to an expatriation allowance. The allowance currently amounts to 14% of annual salary for unmarried staff members and 18% for married staff members, subject to a ceiling. Expatriate staff members are also entitled to receive an education allowance for their children, subject to certain conditions.

The Annual General Meeting approves the remuneration of members of the Board of Directors, with adjustments taking place at regular intervals. The total fixed annual remuneration paid to the Board of Directors was CHF 1,111,068 as of 1 April 2015. In addition, Board members receive an attendance fee for each Board meeting in which they participate. Assuming the full Board is represented in all Board meetings, the annual total of these attendance fees amounts to CHF 1,058,160.

[9] This corresponds to 600.1 full-time equivalent positions. At the end of the 2013/14 financial year, the Bank employed 617 staff members, corresponding to 595.8 full-time equivalent positions. Including positions related to hosted organisations and not funded by the Bank, the number of staff was 656 last financial year and 668 this financial year.

[10] In addition to the basic salary, the General Manager receives an annual representation allowance and enhanced pension rights.

Financial activities and results

The Bank's balance sheet

The Bank's balance sheet decreased by SDR 5.7 billion over the year, following an increase of SDR 10.6 billion in 2013/14. The balance sheet total on 31 March 2015 was SDR 216.8 billion.

Deposits, primarily from central banks, constitute the largest share of the Bank's liabilities. About 95% of the deposits are denominated in currencies, with the remainder in gold. On 31 March 2015, total deposits amounted to SDR 186.7 billion, compared with SDR 191.8 billion at the end of March 2014.

Currency deposits at 31 March 2015 stood at SDR 176 billion, which was SDR 4 billion less than at the previous year-end. Notwithstanding this decline, average deposits held during 2014/15 were SDR 14 billion higher than in the previous year. The currency composition of deposits remained stable, with deposits in US dollars at 74%, in euros at 13% and in sterling at 6%. Gold deposits stood at SDR 9.9 billion on 31 March 2015, a decline of SDR 1.4 billion over the financial year.

Funds received from deposit liabilities are invested in assets that are managed in a conservative manner. At 31 March 2015, 53% of total assets comprised government and other securities or treasury bills. Reverse repurchase agreements (primarily with commercial banks and with sovereign bonds as collateral) made up a further 23%, with unsecured commercial bank assets and gold accounting for 8% and 7%, respectively. The gold balances include 108 tonnes in the Bank's own investment portfolio.

Financial performance

Operating profit

The BIS's financial results for 2014/15 were shaped by continuing low interest rates together with relative stability in most financial markets. This environment led to lower interest income on the Bank's own fund investment assets. Net income on the customer banking business improved, reflecting both a higher intermediation margin and the higher average level of deposits. As a result, overall net interest and valuation movements increased by 11% to SDR 655.3 million.

The Bank recorded a foreign exchange gain of SDR 38.8 million, compared with a loss in the previous financial year of SDR 33.3 million. The gain arose mostly from the appreciation of non-SDR currency assets held in the investment portfolio. The Bank's administrative expense, which is denominated mainly in Swiss francs, amounted to CHF 356.2 million, 1.3% less than in the previous year. In SDR terms, however, the expenditure was the same as in the previous year, at SDR 258.6 million, owing to the Swiss franc's appreciation. Depreciation was SDR 16.2 million, bringing the total operating expense to SDR 274.6 million.

As a result of these developments, the operating profit, at SDR 425.3 million, was 48% higher than last year.

Net profit and total comprehensive income

Net profit comprises operating profit plus the realised gains, or losses, from sales of gold and securities held in the Bank's own fund portfolios. During the year, the Bank sold 3 tonnes of its own gold, realising a gain of SDR 65.6 million. In addition, the Bank's own funds securities portfolio produced realised gains of SDR 52.0 million when securities were sold as part of the regular rebalancing to benchmarks. As a result, net profit for 2014/15 was SDR 542.9 million (2013/14: SDR 419.3 million), representing a return of 3.0% on average equity (2013/14: 2.4%).

Other comprehensive income includes unrealised valuation movements on the Bank's own gold and investment securities as well as re-measurements of the actuarial liabilities for post-employment benefit obligations. The valuation of the Bank's own gold increased by SDR 29.9 million on a 3.3% increase in the SDR gold price. In addition, the Bank recorded a revaluation gain of SDR 102.5 million on its investment securities, in part reflecting marginally lower interest rates. These effects were partly offset by a loss on the re-measurement of defined benefit obligations of SDR 10.1 million. As a result, other comprehensive income for the year was SDR 122.3 million. Total comprehensive income, which combines net profit and other comprehensive income, was SDR 665.2 million. Total return on equity was 3.6%.

Allocation and distribution of profit

Proposed dividend

Consistent with the BIS's dividend policy, it is proposed to declare a dividend of SDR 225 per share for the financial year 2014/15. The dividend is payable on 558,125 shares, and will result in a total payment of SDR 125.6 million. After payment of the dividend, SDR 417.3 million would be available for allocation to reserves.

Proposed allocation of net profit for 2014/15

In accordance with Article 51 of the BIS Statutes, the Board of Directors recommends that the General Meeting allocate the 2014/15 net profit of SDR 542.9 million in the following manner:

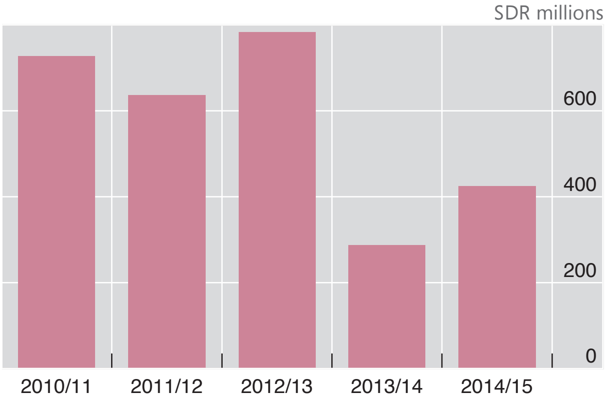
(a) SDR 125.6 million to be paid as a dividend of SDR 225 per share;

(b) SDR 20.9 million to be transferred to the general reserve fund; and

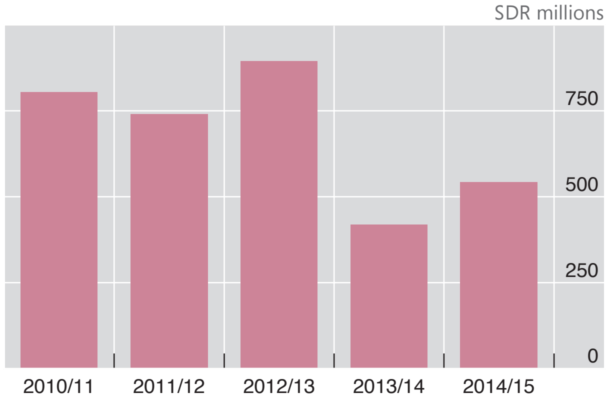
(c) SDR 396.4 million, representing the remainder of the available profit, to be transferred to the free reserve fund.

Five-year graphical summary

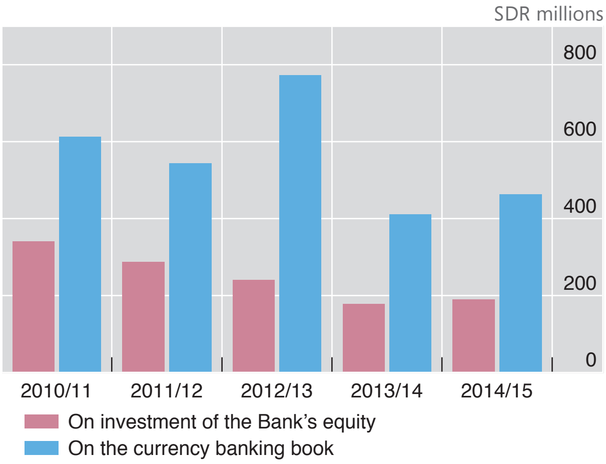
Operating profit



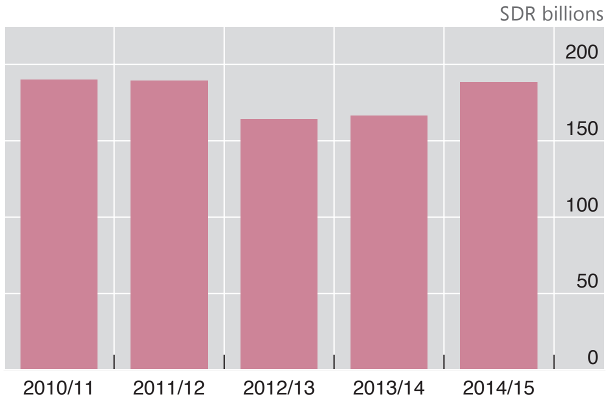
Net profit



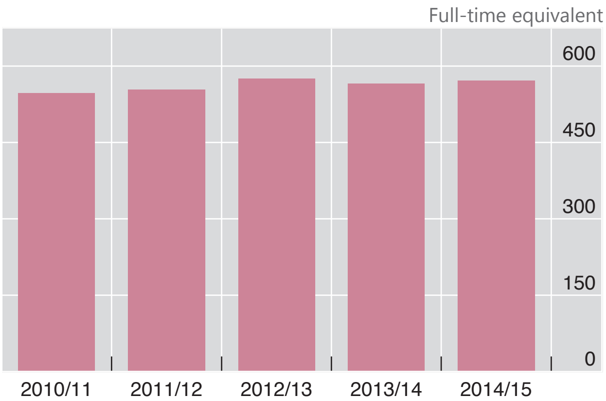
Net interest and valuation income



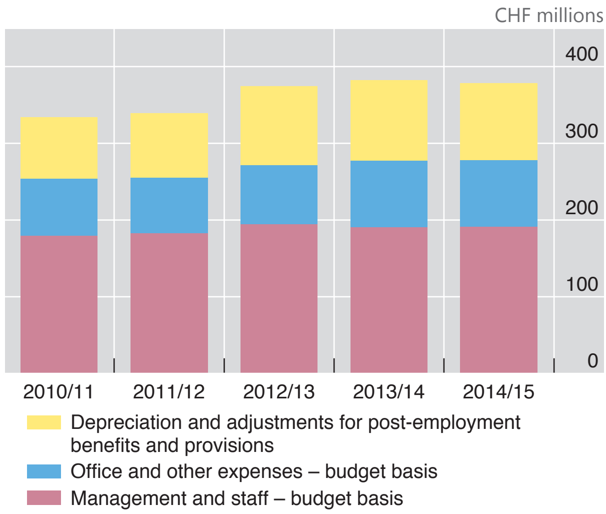
Average currency deposits (settlement date basis)



Average number of employees



Operating expense



Independent auditor

Election of the auditor

In accordance with Article 46 of the BIS Statutes, the Annual General Meeting is invited to elect an independent auditor for the ensuing year and to fix the auditor's remuneration. The Board policy is to rotate the auditor on a regular basis. The financial year ended 31 March 2015 was the third consecutive year of Ernst & Young's term as auditor.

Report of the auditor

The BIS financial statements for the year ended 31 March 2015 have been audited by Ernst & Young, who confirm that they give a true and fair view of the Bank's financial position and of its financial performance and its cash flows for the year then ended. The Ernst & Young report can be found on page 244.

Financial statements

as at 31 March 2015

The financial statements on pages 173–243 for the financial year ended 31 March 2015 were approved on 11 May 2015 for presentation to the Annual General Meeting on 28 June 2015. They are presented in a form approved by the Board of Directors pursuant to Article 49 of the Bank's Statutes and are subject to approval by the shareholders at the Annual General Meeting.

Jaime Caruana	Hervé Hannoun
General Manager	Deputy General Manager

Balance sheet

As at 31 March

SDR millions	Note	**2015**	2014
Assets			
Cash and sight accounts with banks	3	11,375.3	11,211.5
Gold and gold loans	4	14,155.5	20,596.4
Treasury bills	5	33,926.0	44,530.8
Securities purchased under resale agreements	5	49,003.6	50,554.4
Loans and advances	5	17,966.2	19,600.3
Government and other securities	5	80,910.2	70,041.1
Derivative financial instruments	6	6,958.7	3,002.2
Accounts receivable and other assets	7	2,345.4	2,777.4
Land, buildings and equipment	8	194.1	196.2
Total assets		**216,835.0**	222,510.3
Liabilities			
Currency deposits	9	176,842.0	180,472.2
Gold deposits	10	9,857.3	11,297.5
Securities sold under repurchase agreements	11	773.3	1,169.3
Derivative financial instruments	6	2,162.2	2,632.9
Accounts payable	12	8,049.9	8,411.5
Other liabilities	13	877.2	799.0
Total liabilities		**198,561.9**	204,782.4
Shareholders' equity			
Share capital	14	698.9	698.9
Statutory reserves	15	14,579.7	14,280.4
Profit and loss account		542.9	419.3
Less: shares held in treasury	16	(1.7)	(1.7)
Other equity accounts	17	2,453.3	2,331.0
Total equity		**18,273.1**	17,727.9
Total liabilities and equity		**216,835.0**	222,510.3

Profit and loss account

For the financial year ended 31 March

SDR millions	Note	**2015**	2014
Interest income	19	1,526.5	1,599.8
Interest expense	20	(773.4)	(830.3)
Net interest income		**753.1**	769.5
Net valuation movement	21	(97.8)	(179.6)
Net interest and valuation income		**655.3**	589.9
Net fee and commission income	22	5.8	5.0
Net foreign exchange gain / (loss)	23	38.8	(33.3)
Total operating income		**699.9**	561.6
Operating expense	24	(274.6)	(273.9)
Operating profit		**425.3**	287.7
Net gain on sales of securities available for sale	25	52.0	40.5
Net gain on sales of gold investment assets	26	65.6	91.1
Net profit		**542.9**	419.3

Statement of comprehensive income

For the financial year ended 31 March

SDR millions	Note	**2015**	2014
Net profit		**542.9**	419.3
Other comprehensive income			
Items either reclassified to profit and loss during the year, or that will be reclassified subsequently when specific conditions are met			
Net movement on revaluation of available for sale securities	17A	102.5	(229.9)
Net movement on revaluation of gold investment assets	17B	29.9	(942.9)
Items that will not be reclassified subsequently to profit and loss			
Re-measurement of defined benefit obligations	17C	(10.1)	183.1
		122.3	(989.7)
Total comprehensive income		**665.2**	(570.4)

Statement of cash flows

For the financial year ended 31 March

SDR millions	Note	**2015**	2014
Cash flow from / (used in) operating activities			
Interest and similar income received		2,178.3	2,183.3
Interest and similar expenses paid		(595.9)	(668.0)
Net fee and commission income	22	5.8	5.0
Net foreign exchange transaction gain	23	7.1	1.6
Operating expenses	24	(258.4)	(258.6)
Non-cash flow items included in operating profit			
Valuation movements on operating assets and liabilities	21	(97.8)	(179.6)
Net foreign exchange translation gain / (loss)	23	31.7	(34.9)
Change in accruals and amortisation		(829.3)	(745.8)
Change in operating assets and liabilities			
Currency deposit liabilities held at fair value through profit and loss		(7,234.7)	10,617.5
Currency banking assets		3,980.9	(21,947.9)
Sight and notice deposit account liabilities		2,987.1	6,014.4
Gold deposit liabilities		(1,440.2)	(6,283.4)
Gold and gold loan banking assets		6,457.3	13,807.7
Accounts receivable		0.8	1.2
Accounts payable and other liabilities		(162.5)	216.9
Net derivative financial instruments		(4,427.2)	2,084.1
Net cash flow from operating activities		**603.0**	4,813.5
Cash flow from / (used in) investment activities			
Net change in currency investment assets available for sale	5B	(365.8)	(1,682.4)
Net change in currency investment assets held at fair value through profit and loss		–	677.5
Securities sold under repurchase agreements		177.4	595.9
Net change in gold investment assets	4B	79.0	111.3
Net purchase of land, buildings and equipment	8	(14.1)	(21.1)
Net cash flow used in investment activities		**(123.5)**	(318.8)

SDR millions	Note	**2015**	2014
Cash flow from / (used in) financing activities			
Dividends paid		(120.0)	(175.8)
Net cash flow used in financing activities		**(120.0)**	(175.8)
Total net cash flow		**359.5**	4,318.9
Net effect of exchange rate changes on cash and cash equivalents		(136.5)	282.3
Net movement in cash and cash equivalents		496.0	4,036.6
Net change in cash and cash equivalents		**359.5**	4,318.9
Cash and cash equivalents, beginning of year	28	**11,544.5**	7,225.6
Cash and cash equivalents, end of year	28	**11,904.0**	11,544.5

Movements in the Bank's equity

For the financial year ended 31 March

SDR millions	Note	Share capital	Statutory reserves	Profit and loss	Shares held in treasury	Other equity accounts: Defined benefit obligations	Other equity accounts: Gold and securities revaluation	Movement in total equity
At 31 March 2013		**698.9**	**13,647.7**	**898.2**	**(1.7)**	**–**	**3,742.7**	**18,985.8**
Change in accounting policy for post-employment benefit obligations		–	(86.9)	(2.8)	–	(422.0)	–	(511.7)
At 31 March 2013 – restated		**698.9**	**13,560.8**	**895.4**	**(1.7)**	**(422.0)**	**3,742.7**	**18,474.1**
Payment of 2012/13 dividend		–	–	(175.8)	–	–	–	(175.8)
Allocation of 2012/13 profit		–	719.6	(719.6)	–	–	–	–
Total comprehensive income	17	–	–	419.3	–	183.1	(1,172.8)	(570.4)
At 31 March 2014		**698.9**	**14,280.4**	**419.3**	**(1.7)**	**(238.9)**	**2,569.9**	**17,727.9**
Payment of 2013/14 dividend		–	–	(120.0)	–	–	–	(120.0)
Allocation of 2013/14 profit		–	299.3	(299.3)	–	–	–	–
Total comprehensive income	17	–	–	542.9	–	(10.1)	132.4	665.2
At 31 March 2015		**698.9**	**14,579.7**	**542.9**	**(1.7)**	**(249.0)**	**2,702.3**	**18,273.1**

Accounting policies

The accounting policies set out below have been applied to both of the financial years presented unless otherwise stated.

1. Scope of the financial statements

These financial statements recognise all assets and liabilities that are controlled by the Bank and in respect of which the economic benefits, as well as the rights and obligations, lie with the Bank.

To provide services to central bank customers, the Bank operates investment entities which do not have separate legal personality from the Bank. The Bank also manages investment mandates from customers. The Bank undertakes transactions in its own name with commercial counterparties for the benefit of these investment entities and mandates. Where these are derivative transactions, they are recognised in these financial statements along with an offsetting amount owed to, or from, the investment entity or mandate. Non-derivative assets and liabilities held in the Bank's name, but for the economic benefit of investment entities or mandates, are not recognised in these financial statements. Further information on off-balance sheet assets and liabilities is provided in note 30.

The Bank also operates a pension fund in respect of staff pension arrangements. The pension fund does not have a separate legal personality from the Bank. Derivatives undertaken in the Bank's name with commercial counterparties but for the benefit of the pension fund are recognised in these financial statements along with the offsetting amount owed to, or from, the pension fund. The pension fund's net assets are included in these financial statements in accordance with the accounting policy for post-employment benefit obligations. Note 18 provides information on these obligations and associated arrangements.

2. Functional and presentation currency

The functional and presentation currency of the Bank is the Special Drawing Right (SDR) as defined by the International Monetary Fund (IMF).

The SDR is calculated from a basket of major trading currencies according to Rule O–1 as adopted by the Executive Board of the IMF on 30 December 2010 and effective 1 January 2011. As currently calculated, one SDR is equivalent to the sum of USD 0.660, EUR 0.423, JPY 12.1 and GBP 0.111. The composition of the SDR currency basket is subject to review every five years by the IMF; the next review is due to be undertaken in December 2015.

All figures in these financial statements are presented in SDR millions unless otherwise stated.

3. Currency translation

Monetary assets and liabilities are translated into SDR at the exchange rates ruling at the balance sheet date. Other assets and liabilities are recorded in SDR at the exchange rates ruling at the date of the transaction. Profits and losses are translated into SDR at an average rate. Exchange differences arising from the retranslation of monetary assets and liabilities and from the settlement of transactions are included as net foreign exchange gains or losses in the profit and loss account.

4. Accounting designation of financial instruments

Upon initial recognition the Bank designates each financial instrument under one of the following accounting categories:

- Loans and receivables
- Financial assets and financial liabilities held at fair value through profit and loss
- Available for sale financial assets
- Financial liabilities measured at amortised cost

The designation under these categories is dependent on the nature of the financial instrument and the purpose for which it was entered into, as described in Section 5 below.

The resulting designation of each financial instrument determines the accounting methodology that is applied, as described in the accounting policies below. Where the financial instrument is designated as held at fair value through profit and loss, the Bank does not subsequently change this designation.

5. Asset and liability structure

Assets and liabilities are organised into two sets of portfolios:

A. Banking portfolios

These comprise currency and gold deposit liabilities and related banking assets and derivatives.

The Bank operates a banking business in currency and gold on behalf of its customers. In this business the Bank is exposed to credit and market risks. The extent of these exposures is limited by the Bank's risk management approach.

The Bank designates all currency financial instruments in its banking portfolios (other than cash and sight and notice accounts with banks, and sight and notice deposit account liabilities) as held at fair value through profit and loss. The use of fair values in the currency banking portfolios is described in Section 9 below.

All gold financial assets in these portfolios are designated as loans and receivables and all gold financial liabilities are designated as financial liabilities measured at amortised cost.

B. Investment portfolios

These comprise assets, liabilities and derivatives relating principally to the investment of the Bank's equity.

The Bank holds most of its equity in financial instruments denominated in the constituent currencies of the SDR, which are managed by comparison to a fixed duration benchmark of bonds.

Currency assets in investment portfolios, with the exception of cash and notice accounts (Sections 6 and 7 below) and those in more actively traded portfolios, are designated as available for sale.

The currency investment assets maintained in more actively traded portfolios are trading assets and as such are designated as held at fair value through profit and loss.

The remainder of the Bank's equity is held in gold. The Bank's own gold holdings are designated as available for sale.

6. Cash and sight accounts with banks

Cash and sight accounts with banks are included in the balance sheet at their principal value plus accrued interest where applicable.

7. Notice accounts

Notice accounts are short-term monetary assets, including balances at futures clearing brokers. These typically have notice periods of three days or less and are included under the balance sheet heading "Loans and advances". They are considered to be cash equivalents for the purposes of the statement of cash flows.

Due to their short-term nature, these financial instruments are designated as loans and receivables. They are included in the balance sheet at their principal value plus accrued interest. Interest is included in interest income on an accruals basis.

8. Sight and notice deposit account liabilities

Sight and notice deposit accounts are short-term monetary liabilities. They typically have notice periods of three days or less and are included under the balance sheet heading "Currency deposits".

Due to their short-term nature, these financial instruments are designated as financial liabilities measured at amortised cost. They are included in the balance sheet at their principal value plus accrued interest. Interest is included in interest expense on an accruals basis.

9. Use of fair values in the currency banking portfolios

In operating its currency banking business, the Bank acts as a market-maker in certain of its currency deposit liabilities. As a result of this activity the Bank incurs realised profits and losses on these liabilities.

In accordance with the Bank's risk management policies, the market risk inherent in this activity is managed on an overall fair value basis, combining all the relevant assets, liabilities and derivatives in its currency banking portfolios. The realised and unrealised profits or losses on currency deposit liabilities are thus largely offset by realised and unrealised losses or profits on the related currency banking assets and derivatives, or on other currency deposit liabilities.

To reduce the accounting inconsistency that would otherwise arise from recognising realised and unrealised gains and losses on different bases, the Bank designates the relevant assets, liabilities and derivatives in its currency banking portfolios as held at fair value through profit and loss.

10. Securities purchased under resale agreements

Securities purchased under resale agreements ("reverse repurchase agreements") are recognised as collateralised loan transactions by which the Bank lends cash and receives an irrevocable commitment from the counterparty to return the cash, plus interest, at a specified date in the future. As part of these agreements, the Bank receives collateral in the form of securities to which it has full legal title, but must return equivalent securities to the counterparty at the end of the agreement, subject to the counterparty's repayment of the cash. Because the Bank does not acquire the risks or rewards associated with ownership of these collateral securities, they are not recognised as assets in the Bank's balance sheet.

The collateralised loans relating to securities purchased under resale agreements are currency assets. The accounting treatment is determined by whether the transaction involves currency assets held at fair value through profit and loss (Section 11 below) or currency investment assets available for sale (Section 13 below).

11. Currency assets held at fair value through profit and loss

Currency assets include treasury bills, securities purchased under resale agreements, loans and advances, and government and other securities.

As described in Section 9 above, the Bank designates all of the relevant assets in its currency banking portfolios as held at fair value through profit and loss. These currency assets are initially included in the balance sheet on a trade date basis. The accrual of interest and amortisation of premiums paid and discounts received are included in the profit and loss account under "Interest income" on an effective interest rate basis. After initial measurement, the currency assets are revalued to fair value, with all realised and unrealised movements in fair value included under "Net valuation movement".

12. Currency deposit liabilities held at fair value through profit and loss

All currency deposit liabilities, with the exception of sight and notice deposit account liabilities, are designated as held at fair value through profit and loss.

These currency deposit liabilities are initially included in the balance sheet on a trade date basis. The accrual of interest to be paid and amortisation of premiums received and discounts paid are included under the profit and loss account heading "Interest expense" on an effective interest rate basis.

After initial measurement, the currency deposit liabilities are revalued to fair value, with all realised and unrealised movements in fair value included under "Net valuation movement".

13. Currency investment assets available for sale

Currency assets include treasury bills, securities purchased under resale agreements, loans and advances, and government and other securities.

As described in Section 12 above, the Bank designates as available for sale all of the relevant assets in its currency investment portfolios.

Available for sale investment assets are initially included in the balance sheet on a trade date basis. The accrual of interest and amortisation of premiums paid and discounts received are included in the profit and loss account under "Interest income" on an effective interest rate basis.

After trade date, the currency investment assets are revalued to fair value, with unrealised gains or losses included in the securities revaluation account, which is reported under the balance sheet heading "Other equity accounts". The movement in fair value is included in the statement of comprehensive income under the heading "Net movement on revaluation of available for sale securities". Realised profits on disposal are included in the profit and loss account under "Net gain on sales of securities available for sale".

14. Short positions in currency assets

Short positions in currency assets are included in the balance sheet under the heading "Other liabilities" at fair value on a trade date basis.

15. Gold

Gold comprises gold bar assets held in custody at central banks and sight accounts denominated in gold. Gold is considered by the Bank to be a financial instrument.

Gold is included in the balance sheet at its weight in gold (translated at the gold market price and USD exchange rate into SDR). Purchases and sales of gold are accounted for on a settlement date basis. Forward purchases or sales of gold are treated as derivatives prior to the settlement date.

The treatment of realised and unrealised gains or losses on gold is described in Section 18 below.

16. Gold loans

Gold loans comprise fixed-term gold loans. Gold loans are included in the balance sheet on a trade date basis at their weight in gold (translated at the gold market price and USD exchange rate into SDR) plus accrued interest.

Accrued interest on gold loans is included in the profit and loss account under "Interest income" on an effective interest rate basis.

17. Gold deposits

Gold deposits comprise unallocated sight and fixed-term deposits of gold from central banks.

Unallocated gold deposits provide customers with a general claim on the Bank for delivery of gold of the same weight and quality as that delivered by the customer to the Bank, but do not provide the right to specific gold bars. Unallocated gold deposits are included in the balance sheet on a trade date basis at their weight in gold (translated at the gold market price and USD exchange rate into SDR) plus accrued interest. Accrued interest on gold deposits is included in the profit and loss account under "Interest expense" on an effective interest rate basis.

Allocated (or "earmarked") gold deposits provide depositors with a claim for delivery of the specific gold bars deposited by the customer with the Bank on a custody basis. Beneficial ownership and risk remain with the customer. As such, allocated gold deposit liabilities and the related gold bar assets are not included on the Bank's balance sheet. They are disclosed as off-balance sheet items (see note 30).

18. Realised and unrealised gains or losses on gold

The treatment of realised and unrealised gains or losses on gold depends on the designation as described below:

A. Banking portfolios, comprising gold deposits and related gold banking assets

The Bank designates gold loans in its banking portfolios as loans and receivables and gold deposits as financial liabilities measured at amortised cost. The gold derivatives included in the portfolios are designated as held at fair value through profit and loss.

Gains or losses on derivative transactions in gold are included in the profit and loss account under "Net foreign exchange gain / (loss)" as net transaction gains or losses.

Gains or losses on the retranslation of the net position in gold in the banking portfolios are included under "Net foreign exchange gain / (loss)" as net translation gains or losses.

B. Investment portfolios, comprising gold investment assets

The Bank's own holdings of gold are designated and accounted for as available for sale assets.

Unrealised gains or losses on the Bank's gold investment assets over their deemed cost are taken to the gold revaluation account in equity, which is reported under the balance sheet heading "Other equity accounts". The movement in fair value is included in the statement of comprehensive income under the heading "Net movement on revaluation of gold investment assets".

For gold investment assets held on 31 March 2003 (when the Bank changed its functional and presentation currency from the gold franc to the SDR) the deemed cost is approximately SDR 151 per ounce, based on the value of USD 208 that was applied from 1979 to 2003 following a decision by the Bank's Board of Directors, translated at the 31 March 2003 exchange rate.

Realised gains or losses on disposal of gold investment assets are included in the profit and loss account as "Net gain on sales of gold investment assets".

19. Securities sold under repurchase agreements

Securities sold under repurchase agreements ("repurchase agreements") are recognised as collateralised deposit transactions by which the Bank receives cash and provides an irrevocable commitment to return the cash, plus interest, at a specified date in the future. As part of these agreements, the Bank transfers legal title of collateral securities to the counterparty. At the end of the contract the counterparty must return equivalent securities to the Bank, subject to the Bank's repayment of the cash. Because the Bank retains the risks and rewards associated with ownership of these securities, they continue to be recognised as assets in the Bank's balance sheet.

Where the repurchase agreement is associated with currency assets available for sale, the collateralised deposit transaction is designated as a financial liability measured at amortised cost.

Where the repurchase agreement is associated with the management of currency assets held at fair value through profit and loss, the collateralised deposit transaction is designated as a financial instrument held at fair value through profit and loss.

The collateralised deposits relating to securities sold under repurchase agreements are initially included in the balance sheet on a trade date basis. The accrual of interest is included in the profit and loss account under "Interest expense" on an effective interest rate basis. After initial measurement, the transactions designated as held at fair value through profit and loss are revalued to fair value with all unrealised movements in fair value included under "Net valuation movement".

20. Derivatives

Derivatives are used either to manage the Bank's market risk or for trading purposes. They are designated as financial instruments held at fair value through profit and loss.

Derivatives are initially included in the balance sheet on a trade date basis. Where applicable, the accrual of interest and amortisation of premiums and discounts are included in the profit and loss account under "Interest income" on an effective interest rate basis.

After trade date, derivatives are revalued to fair value, with all realised and unrealised movements in value included under "Net valuation movement".

Derivatives are included as either assets or liabilities, depending on whether the contract has a positive or a negative fair value for the Bank.

Where a derivative contract is embedded within a host contract which is not accounted for as held at fair value through profit and loss, it is separated from the host contract for accounting purposes and treated as though it were a standalone derivative as described above.

21. Valuation policy

The Bank's valuation policy defines how financial instruments are designated, which determines their valuation basis and accounting treatment. This policy is supplemented with detailed valuation procedures.

The majority of the financial instruments on the balance sheet are included at fair value. The Bank defines fair value as the exit price of an orderly transaction between market participants on the measurement date.

The use of fair values ensures that the financial reporting to the Board and shareholders reflects the way in which the banking business is managed and is consistent with the risk management and economic performance figures reported to Management.

The Bank considers published price quotations in active markets as the best evidence of fair value. Where no published price quotations exist, the Bank determines fair values using a valuation technique appropriate to the particular financial instrument. Such valuation techniques may involve using market prices of recent arm's length market transactions in similar instruments or may make use of financial models. Where financial models are used, the Bank aims at making maximum use of observable market inputs as appropriate, and relies as little as possible on its own estimates. Such valuation models comprise discounted cash flow analyses and option pricing models.

Where valuation techniques are used to determine fair values, the valuation models are subject to initial approval and periodic review in line with the requirements of the Bank's model validation policy.

The Bank has an independent valuation control function which periodically reviews the value of its financial instruments, taking into account both the accuracy of the valuations and the valuation methodologies used. Other valuation controls include the review and analysis of daily profit and loss.

The Bank values its positions at their exit price, so that assets are valued at the bid price and liabilities at the offer price. Derivative financial instruments are valued on a bid-offer basis, with valuation reserves, where necessary, included in derivative financial liabilities. Financial assets and liabilities that are not valued at fair value are included in the balance sheet at amortised cost.

22. Impairment of financial assets

Financial assets, other than those designated as held at fair value through profit and loss, are assessed for indications of impairment at each balance sheet date. A financial asset is impaired when there is objective evidence that the estimated future cash flows of the asset have been reduced as a result of one or more events that occurred after the initial recognition of the asset. Evidence of impairment could include significant financial difficulty, default, or probable bankruptcy / financial reorganisation of the counterparty or issuer.

Impairment losses are recognised to the extent that a decline in fair value below amortised cost is considered significant or prolonged. Impairment of currency assets is included in the profit and loss account under "Net valuation movement", with impairment of gold loans included under "Interest income". If the amount of the impairment loss decreases in a subsequent period, the previously recognised impairment loss is reversed through profit and loss to the extent that the carrying amount of the investment does not exceed that which it would have been had the impairment not been recognised.

23. Accounts receivable and accounts payable

Accounts receivable and accounts payable are principally very short-term amounts relating to the settlement of financial transactions. They are initially recognised at fair value and subsequently included in the balance sheet at amortised cost.

24. Land, buildings and equipment

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

- Buildings – 50 years
- Building installations and machinery – 15 years
- Information technology equipment – up to 4 years
- Other equipment – 4 to 10 years

The Bank's land is not depreciated. The Bank undertakes an annual review of impairment of land, buildings and equipment. Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down to a lower value.

25. Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of events arising before the balance sheet date and it is probable that economic resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Best estimates and assumptions are used when determining the amount to be recognised as a provision.

26. Taxation

The Bank's special legal status in Switzerland is set out principally in its Headquarters Agreement with the Swiss Federal Council. Under the terms of this document the Bank is exempted from virtually all direct and indirect taxes at both federal and local government level in Switzerland.

Similar agreements exist with the government of the People's Republic of China for the Asian Office in Hong Kong SAR and with the Mexican government for the Americas Office in Mexico City.

However, some income and gains received by the Bank are subject to tax in certain jurisdictions. In such cases, income and gains are recognised on a gross basis with the corresponding tax recognised as an expense.

27. Post-employment benefit obligations

The Bank operates three post-employment benefit arrangements, respectively, for staff pensions, Directors' pensions, and health and accident insurance for current and former staff members. An independent actuarial valuation is performed annually for each arrangement.

A. Staff pensions

The Bank provides a final salary defined benefit pension arrangement for its staff, based on a fund without a separate legal personality from the BIS, out of which benefits are paid. The fund assets are administered by the Bank for the sole benefit of current and former members of staff who participate in the arrangement. The Bank remains ultimately liable for all benefits due under the arrangement.

The liability in respect of the staff pension fund is based on the present value of the defined benefit obligation less the fair value of the fund assets, both at the balance sheet date. The defined benefit obligation is calculated using the projected unit credit method. The present value of the defined benefit obligation is determined from the estimated future cash outflows. The rate used to discount the cash flows is determined by the Bank based on the market yield of highly rated corporate debt securities in Swiss francs which have terms to maturity approximating the terms of the related liability.

The amount charged to the profit and loss account represents the sum of the current service cost of the benefits accruing for the year under the scheme, and interest at the discount rate on the net of the defined benefit obligation less the fair value of the fund assets. Past service costs from plan amendments are immediately recognised through profit or loss. Gains and losses arising from re-measurement of the obligations, such as experience adjustments (where the actual outcome is different from the actuarial assumptions previously made) and changes in actuarial assumptions are charged to other comprehensive income in the year in which the re-measurement is applied. They are not subsequently included in profit and loss in future years.

B. Directors' pensions

The Bank provides an unfunded defined benefit arrangement for Directors' pensions. The liability, defined benefit obligation and amount charged to the profit and loss account in respect of the Directors' pension arrangement are calculated on a similar basis to that used for the staff pension fund.

C. Post-employment health and accident benefits

The Bank provides an unfunded post-employment health and accident benefit arrangement for its staff. The liability, benefit obligation and amount charged to the profit and loss account in respect of the health and accident benefit arrangement are calculated on a similar basis to that used for the staff pension fund.

28. Statement of cash flows

The Bank's statement of cash flows is prepared using an indirect method. It is based on the movements in the Bank's balance sheet, adjusted for changes in financial transactions awaiting settlement.

Cash and cash equivalents consist of cash and sight and notice accounts with banks, which are very short-term financial assets that typically have notice periods of three days or less.

Notes to the financial statements

1. Introduction

The Bank for International Settlements (BIS, "the Bank") is an international financial institution which was established pursuant to the Hague Agreements of 20 January 1930, the Bank's Constituent Charter and its Statutes. The headquarters of the Bank are at Centralbahnplatz 2, 4002 Basel, Switzerland. The Bank maintains representative offices in Hong Kong, Special Administrative Region of the People's Republic of China (for Asia and the Pacific), and in Mexico City, Mexico (for the Americas).

The objectives of the BIS, as laid down in Article 3 of its Statutes, are to promote cooperation among central banks, to provide additional facilities for international financial operations and to act as trustee or agent for international financial settlements. Sixty central banks are currently members of the Bank. The governance and management of the BIS are discussed in "The BIS: mission, activities, governance and financial results" in this Annual Report.

2. Use of estimates

The preparation of the financial statements requires the Bank's Management to make assumptions and estimates in arriving at the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the financial year. To arrive at reasonable estimates, Management exercises judgment based on the latest reliable information.

The main estimates used relate to the valuation of assets and liabilities, the assessment of post-employment benefit obligations and the assessment of provisions and contingent liabilities. Subsequent actual results could differ significantly from these estimates.

Key judgments include the selection and application of the Bank's accounting policies, in particular for the valuation and accounting designation of financial instruments.

A. The valuation of financial assets and liabilities

Certain of the Bank's financial assets and financial liabilities are valued using valuation techniques which require estimation of appropriate valuation parameters. Changes in estimates of these parameters could significantly affect the reported fair values. The valuation impact of a 1 basis point change in spread assumptions of key financial instruments is shown in the table below:

For the financial year ended 31 March

SDR millions	**2015**	2014
Treasury bills	1.0	1.1
Securities purchased under resale agreements	0.3	0.3
Loans and advances	0.2	0.2
Government and other securities	12.2	11.0
Currency deposits	12.4	13.3
Derivative financial instruments	3.0	4.1

B. Impairment provision on financial assets

The Bank conducts an annual review for impairment at the date of each balance sheet. The Bank did not have any financial assets that were considered to be impaired at 31 March 2015 (2014: nil).

C. Actuarial assumptions

The valuation of the Bank's post-employment benefit obligations relies on actuarial assumptions which include, among others, expectations of inflation, interest rates, medical cost inflation, and retirement age and life expectancy of participants. Any changes to actuarial assumptions would have an impact on the valuation of these obligations and the amounts recognised in the financial statements.

3. Cash and sight accounts with banks

Cash and sight accounts with banks consist of cash balances with central banks and commercial banks that are available to the Bank on demand.

4. Gold and gold loans

A. Total gold holdings

The composition of the Bank's total gold holdings was as follows:

As at 31 March

SDR millions	**2015**	2014
Gold	12,639.9	20,374.5
Gold loans	1,515.6	221.9
Total gold and gold loan assets	**14,155.5**	20,596.4
Comprising:		
Gold investment assets	2,998.3	2,981.8
Gold and gold loan banking assets	11,157.2	17,614.6

Included in "Gold" is SDR 1,295.7 million (47 tonnes) of gold (2014: SDR 6,311.2 million; 236 tonnes) that the Bank holds in connection with its gold swap contracts. Under such contracts the Bank receives physical gold in exchange for currencies, and has an obligation to return the gold at the end of the contract. See note 6 for more details on gold swap transactions.

B. Gold investment assets

The Bank's gold investment assets are included in the balance sheet at their weight in gold (translated at the gold market price and USD exchange rate into SDR) plus accrued interest. The excess of this value over the deemed cost value is included in the gold revaluation account, which is reported under the balance sheet heading "Other equity accounts"; the movement in this value is included in the statement of comprehensive income under the heading "Net movement on revaluation of gold investment assets". Realised gains or losses on the disposal of gold investment assets are recognised in the profit and loss account under the heading "Net gain on sales of gold investment assets".

Note 17B provides further analysis of the gold revaluation account. Note 26 provides further analysis of the net gain on sales of gold investment assets.

The table below analyses the movements in the Bank's gold investment assets:

For the financial year ended 31 March

SDR millions	**2015**	2014
Balance at beginning of year	2,981.8	3,944.9
Net change in gold investment assets		
Disposals of gold	(80.1)	(110.5)
Maturities, sight account and other net movements	1.1	(0.8)
	(79.0)	(111.3)
Gold price movement	95.5	(851.8)
Balance at end of year	**2,998.3**	2,981.8

At 31 March 2015 the Bank's gold investment assets amounted to 108 tonnes of gold (2014: 111 tonnes).

5. Currency assets

A. Total holdings

Currency assets comprise treasury bills, securities purchased under resale agreements, fixed-term loans and advances, and government and other securities.

Treasury bills are short-term debt securities issued by governments on a discount basis.

Securities purchased under resale agreements ("reverse repurchase agreements") are recognised as collateralised loan transactions. Interest receivable on the transaction is fixed at the start of the agreement. During the term of the agreement the Bank monitors the fair value of the loan and related collateral securities, and may call for additional collateral (or be required to return collateral) based on movements in market value.

Loans and advances comprise fixed-term loans to commercial banks, advances and notice accounts. Advances relate to committed and uncommitted standby facilities which the Bank provides for its customers. Notice accounts are very short-term financial assets, typically having a notice period of three days or less. Fixed-term loans and advances are designated as held at fair value through profit and loss. Notice accounts are designated as loans and receivables and are included in the balance sheet at their principal value plus accrued interest.

Government and other securities are debt securities issued by governments, international institutions, other public sector institutions, commercial banks and corporates. They include commercial paper, certificates of deposit, fixed and floating rate bonds, covered bonds and asset-backed securities.

The tables below analyse the Bank's holdings of currency assets:

As at 31 March 2015

SDR millions	Fair value through profit and loss	Available for sale	Amortised cost	**Total**
Treasury bills	**33,926.0**	**–**	**–**	**33,926.0**
Securities purchased under resale agreements	**48,230.3**	**773.3**	**–**	**49,003.6**
Loans and advances	**17,437.5**	**–**	**528.7**	**17,966.2**
Government and other securities				
Government	39,065.7	14,959.8	–	54,025.5
Financial institutions	13,641.2	197.3	–	13,838.5
Other	13,009.9	36.3	–	13,046.2
	65,716.8	**15,193.4**	**–**	**80,910.2**
Total currency assets	**165,310.6**	**15,966.7**	**528.7**	**181,806.0**

As at 31 March 2014

SDR millions	Fair value through profit and loss	Available for sale	Amortised cost	Total
Treasury bills	44,530.8	–	–	44,530.8
Securities purchased under resale agreements	49,708.6	845.8	–	50,554.4
Loans and advances	19,267.3	–	333.0	19,600.3
Government and other securities				
Government	29,176.5	14,658.7	–	43,835.2
Financial institutions	13,281.2	142.2	–	13,423.4
Other	12,779.3	3.2	–	12,782.5
	55,237.0	14,804.1	–	70,041.1
Total currency assets	168,743.7	15,649.9	333.0	184,726.6

B. Currency investment assets available for sale

The Bank's currency investment assets largely represent the investment of its equity. They are designated as available for sale unless they are part of an actively traded portfolio (in which case they are designated as held at fair value through profit and loss). Note 25 provides further analysis of the net gain on sales of securities available for sale.

The table below analyses the movements in the Bank's currency investment assets available for sale:

For the financial year ended 31 March

SDR millions	**2015**	2014
Balance at beginning of year	15,649.9	13,913.2
Net change in currency investment assets available for sale		
Additions	15,905.3	9,981.6
Disposals	(6,248.5)	(5,679.3)
Other net movements	(9,291.0)	(2,619.9)
	365.8	1,682.4
Net change in transactions awaiting settlement	(203.5)	243.7
Fair value and other movements	154.5	(189.4)
Balance at end of year	**15,966.7**	15,649.9

6. Derivative financial instruments

The main types of derivative instruments used by the Bank for economic hedging and trading purposes are:

Interest rate and bond futures are contractual agreements to receive or pay a net amount based on changes in interest rates or bond prices at a future date. Futures contracts are settled daily with the exchange. Associated margin payments are settled by cash or marketable securities.

Currency and gold options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, to either buy (call option) or sell (put option), by or on a set date, a specific amount of a currency or gold at a predetermined price. In consideration, the seller receives a premium from the purchaser.

Currency and gold swaps, cross-currency swaps and interest rate swaps are bilateral contractual agreements to exchange cash flows related to currencies, gold or interest rates (for example, fixed rate for floating rate). Cross-currency interest rate swaps involve the exchange of cash flows related to a combination of interest rates and foreign exchange rates. Except for certain currency and gold swaps and cross-currency interest rate swaps, no exchange of principal takes place.

Currency and gold forwards are bilateral contractual agreements involving the exchange of foreign currencies or gold at a future date. This includes undelivered spot transactions.

Forward rate agreements are bilateral interest rate forward contracts that result in cash settlement at a future date for the difference between a contracted rate of interest and the prevailing market rate.

Swaptions are bilateral options under which the seller grants the purchaser the right, but not the obligation, to enter into a currency or interest rate swap at a predetermined price by or on a set date. In consideration, the seller receives a premium from the purchaser.

In addition, the Bank sells products to its customers which contain embedded derivatives (see note 9). The gold currency options embedded in gold dual currency deposits are included within derivatives as currency and gold options.

The table below analyses the fair value of derivative financial instruments:

As at 31 March	2015			2014		
	Notional amounts	Fair values		Notional amounts	Fair values	
SDR millions		Assets	Liabilities		Assets	Liabilities
Bond futures	2,910.7	1.5	(1.6)	1,404.9	0.7	(0.2)
Cross-currency swaps	583.5	56.8	–	1,025.1	–	(145.0)
Currency and gold forwards	1,486.5	6.7	(8.6)	627.1	3.0	(0.6)
Currency and gold options	1,247.1	0.1	(0.7)	2,643.1	7.3	(7.7)
Currency and gold swaps	126,527.1	5,228.8	(802.4)	96,534.1	803.6	(640.1)
Forward rate agreements	25,078.0	7.1	(4.4)	10,574.2	0.7	(1.7)
Interest rate futures	9,511.6	0.5	(0.2)	3,508.7	–	(0.1)
Interest rate swaps	269,846.2	1,657.2	(1,344.3)	282,991.9	2,186.9	(1,828.2)
Swaptions	–	–	–	1,488.4	–	(9.3)
Total derivative financial instruments	**437,190.7**	**6,958.7**	**(2,162.2)**	400,797.5	3,002.2	(2,632.9)
Net derivative financial instruments		**4,796.5**			369.3	

7. Accounts receivable

As at 31 March

SDR millions	**2015**	2014
Financial transactions awaiting settlement	2,335.5	2,766.7
Other assets	9.9	10.7
Total accounts receivable	**2,345.4**	2,777.4

“Financial transactions awaiting settlement” relates to short-term receivables, typically due in three business days or less, where transactions have been effected but cash has not yet been received.

8. Land, buildings and equipment

For the financial year ended 31 March				2015	2014
SDR millions	Land	Buildings	IT and other equipment	Total	Total
Historical cost					
Balance at beginning of year	**46.4**	**270.4**	**95.8**	**412.6**	408.7
Capital expenditure	–	5.5	8.6	14.1	21.1
Disposals and retirements	–	(0.4)	(40.0)	(40.4)	(17.2)
Balance at end of year	**46.4**	**275.5**	**64.4**	**386.3**	412.6
Depreciation					
Balance at beginning of year	**–**	**147.2**	**69.2**	**216.4**	218.1
Depreciation	–	8.5	7.7	16.2	15.3
Disposals and retirements	–	(0.4)	(40.0)	(40.4)	(17.0)
Balance at end of year	**–**	**155.3**	**36.9**	**192.2**	216.4
Net book value at end of year	**46.4**	**120.2**	**27.5**	**194.1**	196.2

The net book value of IT and other equipment at 31 March 2015 includes intangible assets, comprising computer software, of SDR 18.6 million (2014: SDR 16.7 million). The depreciation charge for the financial year ended 31 March 2015 includes no additional charge for impairment (2014: SDR 0.1 million). During the financial year ended 31 March 2015 the Bank adopted the practice of retiring assets when their age reaches twice their estimated useful life. As a result, SDR 39.6 million has been removed from the historical cost and accumulated depreciation in the above table.

9. Currency deposits

Currency deposits are book entry claims on the Bank. The currency deposit instruments are analysed in the table below:

As at 31 March

SDR millions	**2015**	2014
Deposit instruments repayable at one to two days' notice		
Medium-Term Instruments (MTIs)	51,052.9	57,196.1
Callable MTIs	1,814.2	2,832.7
Fixed-Rate Investments at the BIS (FIXBIS)	50,534.3	43,327.0
	103,401.4	103,355.8
Other currency deposits		
Floating Rate Investments of the BIS (FRIBIS)	181.2	58.3
Fixed-term deposits	50,913.8	57,832.9
Dual Currency Deposits (DCDs)	390.6	257.3
Sight and notice deposit accounts	21,955.0	18,967.9
	73,440.6	77,116.4
Total currency deposits	**176,842.0**	180,472.2
Comprising:		
Designated as held at fair value through profit and loss	154,887.0	161,504.3
Designated as financial liabilities measured at amortised cost	21,955.0	18,967.9

Medium-Term Instruments (MTIs) are fixed rate investments at the Bank issued with initial quarterly maturities of between one and 10 years.

Callable MTIs are MTIs that are callable at the option of the Bank at an exercise price of par. At 31 March 2015 all options on outstanding callable MTIs had expired (in 2014 the callable MTIs had call dates between June and December 2014). The balance sheet total for callable MTIs includes the fair value of the embedded interest rate option.

FIXBIS are fixed rate investments at the Bank for any maturities between one week and one year.

FRIBIS are floating rate investments at the Bank with maturities of one year or longer for which the interest rate is reset in line with prevailing market conditions.

Fixed-term deposits are fixed rate investments at the Bank, typically with an initial maturity of less than one year.

Dual Currency Deposits (DCDs) are fixed-term deposits that are repayable on the maturity date either in the original currency or at a fixed amount in a different currency at the option of the Bank. The balance sheet total for DCDs includes the fair value of the embedded foreign exchange option. These deposits all mature between April 2015 and June 2015 (2014: in April and May 2014).

Sight and notice deposit accounts are very short-term financial liabilities, typically having a notice period of three days or less.

The Bank acts as the sole market-maker in certain of its currency deposit liabilities and has undertaken to repay some of these financial instruments at fair value, in whole or in part, at one to two business days' notice.

A. Valuation of currency deposits

Currency deposits (other than sight and notice deposit accounts) are included in the balance sheet at fair value. The amount the Bank is contractually obliged to pay at maturity in respect of its total currency deposits including interest accrued to 31 March 2015 is SDR 176,649.4 million (2014: SDR 180,373.0 million).

The Bank uses valuation techniques to estimate the fair value of its currency deposits. These valuation techniques comprise discounted cash flow models and option pricing models. The discounted cash flow models value the expected cash flows of financial instruments using discount factors that are partly derived from quoted interest rates (eg Libor and swap rates) and partly based on assumptions about spreads at which each product is offered to and repurchased from customers.

The option pricing models include estimates of volatilities that are derived from market quotes.

B. Impact of changes in the Bank's creditworthiness

The fair value of the Bank's liabilities should be affected by any change in its creditworthiness. If the Bank's creditworthiness deteriorated, the value of its liabilities should decrease, and the change in value would be reflected as a valuation movement in the profit and loss account. The Bank regularly assesses its creditworthiness as part of its risk management processes. The Bank's assessment of its creditworthiness did not indicate a change which could have had an impact on the fair value of the Bank's liabilities during the period under review.

10. Gold deposits

Gold deposit liabilities placed with the Bank originate entirely from central banks. They are all designated as financial liabilities measured at amortised cost.

11. Securities sold under repurchase agreements

Securities sold under repurchase agreements ("repurchase agreements"), and related collateral provided by the Bank, are analysed in the table below:

As at 31 March

SDR millions	**2015**	2014
Held at amortised cost	773.3	845.8
Held at fair value through profit and loss	–	323.5
Total securities under repurchase agreements (settled)	**773.3**	1,169.3
Transactions awaiting settlement	–	(249.9)
Total securities sold under repurchase agreements	**773.3**	919.4
Collateral provided under repurchase agreements comprises:		
Treasury bills	–	323.5
Government securities	773.1	596.3
Total collateral provided	**773.1**	919.8

Further information on collateral is provided in note 3C of the "Risk management" section.

12. Accounts payable

Accounts payable consist of financial transactions awaiting settlement, relating to short-term payables, typically payable within three business days or less, where transactions have been effected but cash has not yet been transferred.

13. Other liabilities

The Bank's other liabilities consist of:

As at 31 March

SDR millions	**2015**	2014
Post-employment benefit obligations (see note 18)		
Staff pensions	347.6	336.5
Directors' pensions	10.2	8.8
Health and accident benefits	498.7	431.4
Payable to former shareholders	0.4	0.6
Other	20.3	21.7
Total other liabilities	**877.2**	799.0

14. Share capital

The Bank's share capital consists of:

As at 31 March

SDR millions	**2015**	2014
Authorised capital: 600,000 shares, each of SDR 5,000 par value, of which SDR 1,250 is paid up	3,000.0	3,000.0
Issued capital: 559,125 shares	2,795.6	2,795.6
Paid-up capital (25%)	**698.9**	698.9

The number of shares eligible for dividend is:

As at 31 March	**2015**	2014
Issued shares	559,125	559,125
Shares held in treasury	(1,000)	(1,000)
Outstanding shares eligible for dividend	**558,125**	558,125

15. Statutory reserves

The Bank's Statutes provide for application of the Bank's annual net profit by the Annual General Meeting on the proposal of the Board of Directors to three specific reserve funds: the legal reserve fund, the general reserve fund and the special dividend reserve fund; the remainder of the net profit after payment of any dividend is generally allocated to the free reserve fund.

Legal reserve fund. This fund is currently fully funded at 10% of the Bank's paid-up capital.

General reserve fund. After payment of any dividend, 5% of the remainder of the Bank's annual net profit currently must be allocated to the general reserve fund.

Special dividend reserve fund. A portion of the remainder of the annual net profit may be allocated to the special dividend reserve fund, which shall be available, in case of need, for paying the whole or any part of a declared dividend. Dividends are normally paid out of the Bank's net profit.

Free reserve fund. After the above allocations have been made, any remaining unallocated net profit is generally transferred to the free reserve fund.

Receipts from the subscription of the Bank's shares are allocated to the legal reserve fund as necessary to keep it fully funded, with the remainder being credited to the general reserve fund.

The free reserve fund, general reserve fund and legal reserve fund are available, in that order, to meet any losses incurred by the Bank. In the event of liquidation of the Bank, the balances of the reserve funds (after the discharge of the liabilities of the Bank and the costs of liquidation) would be divided among the Bank's shareholders.

The table below analyses the movements in the Bank's statutory reserves over the last two years:

SDR millions	Legal reserve fund	General reserve fund	Special dividend reserve fund	Free reserve fund	Total statutory reserves
Balance at 31 March 2013 – restated	**69.8**	**3,569.9**	**178.0**	**9,743.1**	**13,560.8**
Allocation of 2012/13 profit – restated	–	36.1	6.0	677.5	719.6
Balance at 31 March 2014	**69.8**	**3,606.0**	**184.0**	**10,420.6**	**14,280.4**
Allocation of 2013/14 profit	–	15.0	–	284.3	299.3
Balance at 31 March 2015	**69.8**	**3,621.0**	**184.0**	**10,704.9**	**14,579.7**

At 31 March 2015 statutory reserves included share premiums of SDR 1,059.6 million (2014: SDR 1,059.6 million). The reported numbers for prior financial periods were restated in 2014 following a change in accounting policy relating to post-employment benefit obligations.

In accordance with Article 51 of the Bank's Statutes, the following profit allocation will be proposed at the Bank's Annual General Meeting:

SDR millions	**2015**
Net profit	**542.9**
Transfer to legal reserve fund	–
Proposed dividend:	
SDR 225 per share on 558,125 shares	(125.6)
Profit available for allocation	**417.3**
Proposed transfers to reserves:	
General reserve fund	(20.9)
Free reserve fund	(396.4)
Balance after allocation to reserves	–

16. Shares held in treasury

Shares held in treasury consist of 1,000 shares of the Albanian issue which were suspended in 1977.

17. Other equity accounts

Other equity accounts comprise the revaluation accounts for available for sale assets (gold investment and currency investment assets) as well as the re-measurement gains or losses on defined benefit obligations.

As at 31 March

SDR millions	**2015**	2014
Securities revaluation account	234.9	132.4
Gold revaluation account	2,467.4	2,437.5
Re-measurement of defined benefit obligations	(249.0)	(238.9)
Total other equity accounts	**2,453.3**	**2,331.0**

A. Securities revaluation account

This account contains the difference between the fair value and the amortised cost of the Bank's currency investment assets. The movements in the securities revaluation account were as follows:

For the financial year ended 31 March

SDR millions	**2015**	2014
Balance at beginning of year	132.4	362.3
Net gain on sales	(52.0)	(40.5)
Fair value and other movements	154.5	(189.4)
Net movement on revaluation of currency investment assets	**102.5**	(229.9)
Balance at end of year	**234.9**	132.4

The table below analyses the balance in the securities revaluation account, which relates to government and other securities:

SDR millions	Fair value of assets	Historical cost	Securities revaluation account	Gross gains	Gross losses
As at 31 March 2015	15,966.7	15,731.8	**234.9**	237.2	(2.3)
As at 31 March 2014	15,649.9	15,517.5	132.4	173.1	(40.7)

B. Gold revaluation account

This account contains the difference between the book value and the deemed cost of the Bank's gold investment assets. For gold investment assets held on 31 March 2003 (when the Bank changed its functional and presentation currency from the gold franc to the SDR) the deemed cost is approximately SDR 151 per ounce, based on the value of USD 208 per ounce that was applied from 1979 to 2003 in accordance with a decision by the Bank's Board of Directors and translated at the 31 March 2003 exchange rate.

The movements in the gold revaluation account were as follows:

For the financial year ended 31 March

SDR millions	**2015**	2014
Balance at beginning of year	2,437.5	3,380.4
Net gain on sales	(65.6)	(91.1)
Gold price movement	95.5	(851.8)
Net movement on revaluation of gold investment assets	**29.9**	(942.9)
Balance at end of year	**2,467.4**	2,437.5

C. Re-measurement of defined benefit obligations

This account contains the gains and losses from re-measurement of the Bank's post-employment benefit obligations.

For the financial year ended 31 March

SDR millions	**2015**	2014
Balance at beginning of year	(238.9)	(422.0)
Staff pension	33.3	98.5
Post-employment health and accident insurance	(42.4)	0.5
Directors' pension	(1.0)	84.1
Net movement on the re-measurement of defined benefit obligations	**(10.1)**	183.1
Balance at end of year	**(249.0)**	(238.9)

Note 18D provides further analysis of the re-measurement of the Bank's post-employment benefit obligations.

18. Post-employment benefit obligations

The Bank operates three post-employment arrangements:

1. A defined benefit pension arrangement for its staff in the event of retirement, disability or death. Benefits accrue under this arrangement according to years of participation and pensionable remuneration. Benefits are paid out of a fund without separate legal personality. The fund assets are administered by the Bank for the sole benefit of current and former members of staff, and their dependents, who participate in the arrangement. Contributions are made to this fund by the Bank and by staff. The fund also receives the return on the assets the Bank holds in the fund. The Bank remains ultimately liable for all benefits due under the arrangement.

2. An unfunded defined benefit arrangement for its Directors, whose entitlement is based on a minimum service period of four years.

3. An unfunded post-employment health and accident benefit arrangement for its staff and their dependents. Employees who leave the Bank after becoming eligible for early retirement benefits from the pension arrangement are eligible for post-employment health and accident benefits.

All three arrangements operate in Swiss francs and are valued annually by an independent actuary. During 2015/16, the Bank expects to make contributions of SDR 33.3 million to its post-employment arrangements.

In January 2014, the Board endorsed a number of changes to the staff pension arrangement. Changes included the discontinuation of the right to purchase additional pension benefits, an increase in the compulsory retirement age, a reduction in early retirement benefits and an amendment to the pensionable remuneration basis from final salary to average salary of the last three years of service. Some of these changes became effective immediately; others became effective on 1 October 2014 when new pension fund regulations came into force.

A. Amounts recognised in the balance sheet

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2015**	2014	2013 restated	**2015**	2014	2013 restated	**2015**	2014	2013 restated
Present value of obligations	(1,468.7)	(1,398.6)	(1,370.7)	(10.2)	(8.8)	(8.9)	(498.7)	(431.4)	(478.9)
Fair value of fund assets	1,121.1	1,062.1	978.2	–	–	–	–	–	–
Liability at end of year	**(347.6)**	(336.5)	(392.5)	**(10.2)**	(8.8)	(8.9)	**(498.7)**	(431.4)	(478.9)

B. Present value of defined benefit obligations

The reconciliation of the opening and closing amounts of the present value of the benefit obligations is as follows:

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2015**	2014	2013 restated	**2015**	2014	2013 restated	**2015**	2014	2013 restated
Present value of obligations at beginning of year	(1,398.6)	(1,370.7)	(1,264.5)	(8.8)	(8.9)	(8.6)	(431.4)	(478.9)	(434.3)
Employee contributions	(6.6)	(6.5)	(6.2)	–	–	–	–	–	–
Benefit payments	49.4	35.8	28.5	0.4	0.5	0.5	2.9	2.9	2.7
Net current service cost	(61.5)	(63.6)	(53.5)	(0.4)	(0.5)	(0.4)	(12.1)	(18.2)	(15.6)
Interest cost on obligation at opening discount rate	(27.3)	(24.1)	(24.3)	(0.2)	(0.1)	(0.2)	(8.5)	(8.5)	(8.4)
Actuarial gain / (loss) arising from experience adjustments	30.3	21.3	(5.0)	–	0.4	–	(41.2)	41.0	–
Actuarial gain / (loss) arising from changes in demographic assumptions	19.5	(5.6)	(5.1)	(0.2)	–	–	30.9	26.1	(3.1)
Actuarial gain / (loss) arising from changes in financial assumptions	(45.0)	65.1	(60.8)	(0.8)	0.3	(0.3)	(30.3)	24.3	(27.0)
Past service costs	–	7.0	–	–	–	–	–	–	–
Exchange differences	(28.9)	(57.3)	20.2	(0.2)	(0.5)	0.1	(9.0)	(20.1)	6.8
Present value of obligations at end of year	**(1,468.7)**	(1,398.6)	(1,370.7)	**(10.2)**	(8.8)	(8.9)	**(498.7)**	(431.4)	(478.9)

The following table shows the weighted average duration of the defined benefit obligations for the Bank's three post-employment benefit arrangements:

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
Years	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Weighted average duration	**18.2**	18.4	18.9	**13.0**	12.3	12.4	**23.7**	22.1	24.1

C. Amounts recognised in the profit and loss account

For the financial year ended 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2015**	2014	2013 restated	**2015**	2014	2013 restated	**2015**	2014	2013 restated
Net current service cost	(61.5)	(63.6)	(53.5)	(0.4)	(0.5)	(0.4)	(12.1)	(18.2)	(15.6)
Reduction in past service cost	–	7.0	–	–	–	–	–	–	–
Interest cost on net liability	(6.3)	(6.7)	(6.2)	(0.2)	(0.1)	(0.2)	(8.5)	(8.5)	(8.4)
Total included in operating expense	**(67.8)**	(63.3)	(59.7)	**(0.6)**	(0.6)	(0.6)	**(20.6)**	(26.7)	(24.0)

D. Re-measurement of defined benefit obligations recognised in other comprehensive income

For the financial year ended 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2015**	2014	2013 restated	**2015**	2014	2013 restated	**2015**	2014	2013 restated
Return on plan assets in excess of opening discount rate	30.5	26.9	42.1	–	–	–	–	–	–
Actuarial gain / (loss) arising from experience adjustments	30.3	21.3	(5.0)	–	0.4	–	(41.2)	41.0	–
Actuarial gain / (loss) arising from changes in demographic assumptions	19.5	(5.6)	(5.1)	(0.2)	–	–	30.9	26.1	(3.1)
Actuarial gain / (loss) arising from changes in financial assumptions	(45.0)	65.1	(60.8)	(0.8)	0.3	(0.3)	(30.3)	24.3	(27.0)
Foreign exchange gain / (loss) on items in other comprehensive income	(2.0)	(9.2)	3.1	–	(0.2)	–	(1.8)	(7.3)	2.2
Amounts recognised in other comprehensive income	**33.3**	98.5	(25.7)	**(1.0)**	0.5	(0.3)	**(42.4)**	84.1	(27.9)

E. Analysis of movement on fair value of fund assets for staff pensions

The reconciliation of the opening and closing amounts of the fair value of fund assets for the staff pension arrangement is as follows:

For the financial year ended 31 March

SDR millions	**2015**	2014	2013
Fair value of fund assets at beginning of year	1,062.1	978.2	929.2
Employer contributions	28.2	27.8	26.5
Employee contributions	6.6	6.5	6.2
Benefit payments	(49.4)	(35.8)	(28.5)
Interest income on plan assets calculated on opening discount rate	21.0	17.4	18.0
Return on plan assets in excess of opening discount rate	30.5	26.9	42.1
Exchange differences	22.1	41.1	(15.3)
Fair value of fund assets at end of year	**1,121.1**	1,062.1	978.2

F. Composition and fair value of assets for the pension fund

The table below analyses the assets of the pension fund and the extent to which the fair values of those assets have been calculated using quoted prices in active markets. A price is considered to be quoted if it is both readily available from an exchange, dealer or similar source and indicates the price at which transactions can be executed. A market is considered to be active if willing buyers and sellers can normally be found. The pension fund does not invest in financial instruments issued by the Bank.

As at 31 March

SDR millions	**2015**			2014		
	Quoted in active market	Unquoted	Total	Quoted in active market	Unquoted	Total
Cash (including margin accounts)	14.9	–	14.9	19.5	–	19.5
Debt securities	325.0	–	325.0	361.2	–	361.2
Fixed income funds	212.5	–	212.5	124.6	–	124.6
Equity funds	452.2	36.5	488.7	436.4	29.3	465.7
Real estate funds	17.4	8.0	25.4	25.8	8.0	33.8
Commodity-linked notes	–	54.2	54.2	–	52.9	52.9
Derivative instruments	(0.2)	0.6	0.4	0.1	4.3	4.4
Total	**1,021.8**	**99.3**	**1,121.1**	967.6	94.5	1,062.1

G. Principal actuarial assumptions used in these financial statements

As at 31 March	**2015**	2014
Applicable to all three post-employment benefit arrangements		
Discount rate – market rate of highly rated Swiss corporate bonds	0.80%	2.00%
Applicable to staff and Directors' pension arrangements		
Assumed increase in pensions payable	0.80%	1.50%
Applicable to staff pension arrangement only		
Assumed salary increase rate	2.80%	4.10%
Applicable to Directors' pension arrangement only		
Assumed Directors' pensionable remuneration increase rate	0.80%	1.50%
Applicable to post-employment health and accident benefit arrangement only		
Long-term medical cost inflation assumption	4.00%	5.00%

The assumed increases in staff salaries, Directors' pensionable remuneration and pensions payable incorporate an inflation assumption of 0.8% at 31 March 2015 (2014: 1.5%).

H. Life expectancies

The life expectancies, at age 65, used in the actuarial calculations for the staff pension arrangement are:

As at 31 March

Years	**2015**	2014
Current life expectancy of members aged 65		
Male	20.0	19.9
Female	22.3	22.2
Life expectancy of members aged 65 projected forward in 10 years' time		
Male	21.0	20.3
Female	23.2	22.6

I. Sensitivity analysis of significant actuarial assumptions

The Bank is exposed to risks from these obligations and arrangements including investment risk, interest rate risk, foreign exchange risk, longevity risk and salary risk.

Investment risk is the risk that plan assets will not generate returns at the expected level.

Interest rate risk is the exposure of the post-employment benefit obligations to adverse movements in interest rates including credit spreads. A decrease in interest rates will increase the present value of these obligations. However, in the case of the staff pension arrangement this may be offset, either fully or partly, by an increase in value of the interest bearing securities held by the fund.

Foreign exchange risk is the exposure of the post-employment benefit obligations to adverse movements in exchange rates between the Swiss franc, which is the operating currency of the post-employment benefit arrangements, and the SDR, which is the functional currency of the Bank.

Longevity risk is the risk that actual outcomes differ from actuarial estimates of life expectancy.

Salary risk is the risk that higher than expected salary rises increase the cost of providing a salary-related pension.

The table below shows the estimated impact on the defined benefit obligation resulting from a change in key actuarial assumptions (see tables 18G and 18H):

As at 31 March	Staff pensions	
SDR millions	**2015**	2014
Discount rate – increase by 0.5%	(123.4)	(117.5)
Rate of salary increase – increase by 0.5%	39.7	42.0
Rate of pension payable increase – increase by 0.5%	95.5	86.7
Life expectancy – increase by 1 year	55.8	51.7

As at 31 March	Directors' pensions	
SDR millions	**2015**	2014
Discount rate – increase by 0.5%	(0.6)	(0.5)
Rate of pension payable increase – increase by 0.5%	0.6	0.5
Life expectancy – increase by 1 year	0.6	0.4

As at 31 March	Post-employment health and accident benefits	
SDR millions	**2015**	2014
Discount rate – increase by 0.5%	(53.9)	(43.1)
Medical cost inflation rate – increase by 1.0%	124.5	100.7
Life expectancy – increase by 1 year	30.9	27.2

The above estimates were arrived at by changing each assumption individually, holding other variables constant. They do not include any correlation effects that may exist between variables.

19. Interest income

For the financial year ended 31 March

SDR millions	**2015**	2014
Currency assets available for sale		
Securities purchased under resale agreements	1.6	0.2
Government and other securities	177.2	181.7
	178.8	181.9
Currency assets held at fair value through profit and loss		
Treasury bills	91.9	97.4
Securities purchased under resale agreements	68.5	64.0
Loans and advances	111.2	125.8
Government and other securities	660.9	627.6
	932.5	914.8
Assets designated as loans and receivables		
Sight and notice accounts	(10.6)	0.5
Gold investment assets	1.6	–
Gold banking assets	0.7	1.0
	(8.3)	1.5
Derivative financial instruments held at fair value through profit and loss	**423.5**	501.6
Total interest income	**1,526.5**	1,599.8

Total interest income is net of "negative" interest income of SDR 32.6 million (2014: SDR 6.5 million).

20. Interest expense

For the financial year ended 31 March

SDR millions	**2015**	2014
Liabilities held at fair value through profit and loss		
Currency deposits	739.7	798.5
Liabilities designated as financial liabilities measured at amortised cost		
Sight and notice deposit accounts	32.2	31.0
Gold deposits	0.6	0.8
Securities sold under repurchase agreements	0.9	–
	33.7	31.8
Total interest expense	**773.4**	830.3

Total interest expense is net of "negative" interest expense of SDR 8.0 million (2014: SDR 0.4 million).

21. Net valuation movement

The net valuation movement arises entirely on financial instruments designated as held at fair value through profit and loss. There were no credit losses due to restructuring or default in the financial years ended 31 March 2015 and 2014.

For the financial year ended 31 March

SDR millions	**2015**	2014
Currency assets held at fair value through profit and loss		
Unrealised valuation movements on currency assets	32.5	(384.6)
Realised gains on currency assets	56.2	67.3
	88.7	(317.3)
Currency liabilities held at fair value through profit and loss		
Unrealised valuation movements on financial liabilities	(62.1)	820.8
Realised losses on financial liabilities	(53.5)	(369.7)
	(115.6)	451.1
Valuation movements on derivative financial instruments	**(70.9)**	(313.4)
Net valuation movement	**(97.8)**	(179.6)

22. Net fee and commission income

For the financial year ended 31 March

SDR millions	**2015**	2014
Net third-party asset management fee income	9.9	8.2
Other fee income	3.8	3.8
Other fee and commission expense	(7.9)	(7.0)
Net fee and commission income	**5.8**	5.0

Asset management fees relate to net fees earned by the Bank on trust and fiduciary activities in which the Bank holds or invests assets on behalf of its customers.

23. Net foreign exchange gain / (loss)

For the financial year ended 31 March

SDR millions	**2015**	2014
Net transaction gain	7.1	1.6
Net translation gain / (loss)	31.7	(34.9)
Net foreign exchange gain / (loss)	**38.8**	(33.3)

24. Operating expense

The following table analyses the Bank's operating expense in Swiss francs (CHF), the currency in which most expenditure is incurred:

For the financial year ended 31 March

CHF millions	**2015**	2014
Board of Directors		
Directors' fees	2.1	2.1
Pensions to former Directors	0.9	0.9
Travel, external Board meetings and other costs	1.2	1.6
	4.2	4.6
Management and staff		
Remuneration	128.7	129.9
Pensions	93.8	89.0
Other personnel-related expense	46.9	54.9
	269.4	273.8
Office and other expense	**70.8**	71.4
BIS administrative expense	**344.4**	349.8
Direct contributions to hosted organisations	11.8	11.1
Total administrative expenses	**356.2**	360.9
Administrative expense in SDR millions	258.4	258.6
Depreciation in SDR millions	16.2	15.3
Operating expense in SDR millions	**274.6**	273.9

The average number of full-time equivalent employees during the financial year ended 31 March 2015 was 572 (2014: 566). In addition, at 31 March 2015 the Bank employed 61 staff members (2014: 60) on behalf of the Financial Stability Board (FSB), the International Association of Deposit Insurers (IADI) and the International Association of Insurance Supervisors (IAIS).

The Bank makes direct contributions, which include salary and post-employment costs and other related expenses, towards the operational costs of the FSB, IADI and IAIS, and these amounts are shown under "Direct contributions to hosted organisations". The Bank also provides logistical, administrative and staffing-related support for these organisations, the cost of which is included within the Bank's regular operating expense categories.

25. Net gain on sales of securities available for sale

For the financial year ended 31 March

SDR millions	**2015**	2014
Disposal proceeds	6,367.4	5,679.4
Amortised cost	(6,315.4)	(5,638.9)
Net gain on sales of securities available for sale	**52.0**	40.5
Comprising:		
Gross realised gains	55.7	55.2
Gross realised losses	(3.7)	(14.7)

26. Net gain on sales of gold investment assets

For the financial year ended 31 March

SDR millions	**2015**	2014
Disposal proceeds	80.1	110.5
Deemed cost (see note 17B)	(14.5)	(19.4)
Net gain on sales of gold investment assets	**65.6**	91.1

27. Dividends per share

For the financial year ended 31 March	**2015**	2014
Net profit for the financial year (SDR millions)	542.9	419.3
Weighted average number of shares entitled to dividend	558,125	558,125
Dividend per share (SDR per share)	225.0	215.0
Total dividend (SDR millions)	**125.6**	120.0

The Bank's dividend policy requires that the dividend be set at a sustainable level which should vary over time in a predictable fashion. The policy also requires that the dividend reflect the Bank's capital needs and its prevailing financial circumstances, with a payout ratio of between 20 and 30% in most years.

The proposed dividend for 2015 represents a payout ratio of 23% of net profit (2014: 29%).

28. Cash and cash equivalents

The cash and cash equivalents in the statement of cash flows comprise:

As at 31 March

SDR millions	**2015**	2014
Cash and sight accounts with banks	11,375.3	11,211.5
Notice accounts	528.7	333.0
Total cash and cash equivalents	**11,904.0**	11,544.5

29. Exchange rates

The following table shows the principal exchange rates and prices used to translate balances in foreign currency and gold into SDR:

	Spot rate as at 31 March		Average rate for the financial year	
	2015	2014	**2015**	2014
USD	**0.725**	0.647	**0.674**	0.656
EUR	**0.778**	0.892	**0.852**	0.879
JPY	**0.00604**	0.00629	**0.00614**	0.00655
GBP	**1.076**	1.079	**1.085**	1.043
CHF	**0.747**	0.732	**0.725**	0.715
Gold (in ounces)	**860.7**	833.3	**839.8**	871.0

30. Off-balance sheet items

The following items are not included in the Bank's balance sheet:

As at 31 March

SDR millions	**2015**	2014
Gold bars held under earmark	12,256.4	10,417.4
Nominal value of securities:		
Securities held under safe custody arrangements	4,733.0	5,295.9
Securities held under collateral pledge agreements	38.9	34.8
Net asset value of portfolio management mandates:		
BISIPs	9,618.0	9,162.4
Dedicated mandates	4,019.7	2,969.3

Gold bars held under earmark comprise specific gold bars which have been deposited with the Bank on a custody basis. They are included at their weight in gold (translated at the gold market price and the USD exchange rate into SDR). At 31 March 2015 gold bars held under earmark amounted to 443 tonnes of gold (2014: 389 tonnes).

Portfolio management mandates include BIS Investment Pools (BISIPs) and dedicated mandates.

The BISIPs are a range of open-ended investment funds created by the Bank and managed using entities that do not have a separate legal personality from the Bank. The Bank has an agency relationship with the BISIPs, such that the assets of the BISIPs are held in the name of the BIS, but the economic benefit lies with central bank customers. The Bank does not invest for its own account in the BISIPs.

Dedicated mandates are portfolios which are managed by the Bank in accordance with investment guidelines set by the customer. They are held for the financial benefit of the central bank customer.

For both the BISIPs and the dedicated mandates, the Bank is remunerated by a management fee which is included within net fee and commission income in the profit and loss account.

31. Commitments

The Bank provides a number of committed standby facilities for its customers on a collateralised or uncollateralised basis. At 31 March 2015 all of the outstanding commitments were collateralised and amounted to SDR 3,096.5 million. At 31 March 2014 the outstanding commitments to extend credit under these committed standby facilities amounted to SDR 2,922.9 million, of which SDR 194.1 million was uncollateralised.

The Bank is committed to supporting the operations of the Financial Stability Board (FSB), the International Association of Deposit Insurers (IADI) and the International Association of Insurance Supervisors (IAIS) and in each case has a separate agreement specifying the terms of support and commitment. The Bank is the legal employer of IADI and IAIS staff, with the regular ongoing staff costs borne by each association. The commitment by the BIS to IADI and the IAIS is subject to an annual budgetary decision of the Board.

On 28 January 2013 the BIS and the FSB entered into an agreement which governs the Bank's support of the FSB. The agreement is for an initial term of five years. Under the terms of the agreement, the BIS is the legal employer of FSB staff. The Bank provides a contribution to cover FSB staff costs, and also provides premises, administrative infrastructure and equipment.

32. Fair value hierarchy

The Bank categorises its financial instrument fair value measurements using a hierarchy that reflects the observability of inputs used in measuring that value. A valuation level is assigned according to the least observable input that is significant to the fair value measurement in its entirety. The fair value hierarchy used by the Bank comprises the following levels:

Level 1 – Instruments valued using unadjusted quoted prices in active markets for identical financial instruments.

Level 2 – Instruments valued with valuation techniques using inputs which are observable for the financial instrument either directly (ie as a price) or indirectly (ie derived from prices for similar financial instruments). This includes observable interest rates, spreads and volatilities.

Level 3 – Instruments valued using valuation techniques where the inputs are not observable in financial markets.

At 31 March 2015 the Bank had no financial instruments categorised as level 3 (2014: nil).

As at 31 March 2015

SDR millions	Level 1	Level 2	Total
Financial assets held at fair value through profit and loss			
Treasury bills	26,869.2	7,056.8	33,926.0
Securities purchased under resale agreements	–	48,230.3	48,230.3
Fixed-term loans	–	17,437.5	17,437.5
Government and other securities	48,124.3	17,592.5	65,716.8
Derivative financial instruments	3.2	6,955.5	6,958.7
Financial assets designated as available for sale			
Government and other securities	14,937.4	256.0	15,193.4
Securities purchased under resale agreements	–	773.3	773.3
Total financial assets accounted for at fair value	**89,934.1**	**98,301.9**	**188,236.0**
Financial liabilities held at fair value through profit and loss			
Currency deposits	–	(154,887.0)	(154,887.0)
Derivative financial instruments	(3.0)	(2,159.2)	(2,162.2)
Total financial liabilities accounted for at fair value	**(3.0)**	**(157,046.2)**	**(157,049.2)**

As at 31 March 2014

SDR millions	Level 1	Level 2	Total
Financial assets held at fair value through profit and loss			
Treasury bills	40,162.5	4,368.3	44,530.8
Securities purchased under resale agreements	–	49,708.6	49,708.6
Fixed-term loans	–	19,267.3	19,267.3
Government and other securities	38,207.1	17,029.9	55,237.0
Derivative financial instruments	1.0	3,001.2	3,002.2
Financial assets designated as available for sale			
Government and other securities	14,730.2	73.9	14,804.1
Securities purchased under resale agreements	–	845.8	845.8
Total financial assets accounted for at fair value	93,100.8	94,295.0	187,395.8
Financial liabilities held at fair value through profit and loss			
Currency deposits	–	(161,504.3)	(161,504.3)
Securities sold under repurchase agreements	–	(323.5)	(323.5)
Derivative financial instruments	(0.7)	(2,632.20)	(2,632.9)
Total financial liabilities accounted for at fair value	(0.7)	(164,460.0)	(164,460.7)

A. Transfers between levels in the fair value hierarchy

Of the assets categorised as level 1 at 31 March 2015, SDR 1,778.5 million related to assets that had been held at 31 March 2014 and valued as level 2 at that date. Of the assets categorised as level 2 at 31 March 2015, SDR 687.4 million related to assets that had been held at 31 March 2014 and categorised as level 1 as at that date. The transfer of assets between levels 1 and 2 reflected specific market conditions existing at the reporting dates that affected the observability of the market prices as defined above. No liability valuations were transferred between fair value hierarchy levels.

No assets were transferred to or from the level 3 category during the year.

B. Assets and liabilities measured at fair value level 3

During the financial years ended 31 March 2015 and 2014 the Bank did not classify any assets or liabilities as level 3 in the fair value hierarchy.

C. Financial instruments not measured at fair value

The Bank accounts for certain financial instruments at amortised cost. These comprise financial assets of “Cash and sight accounts”, “Gold and gold loans” and “Notice accounts”. Financial liabilities held at amortised cost comprise “Gold deposits”, “Sight and notice deposit accounts”’ and those “Securities sold under repurchase agreements” that are associated with currency assets available for sale. If these instruments were included in the fair value hierarchy, the valuation of “Gold loans” and “Securities sold under repurchase agreements” would be considered level 2. All other amortised cost financial instruments would be considered level 1.

Using the same valuation techniques for amortised cost financial instruments as are applied to fair valued financial instruments, the Bank estimates that their fair values would be materially the same as the carrying values shown in these financial statements for both 31 March 2015 and 31 March 2014.

33. Geographical analysis

A. Total liabilities

As at 31 March

SDR millions	**2015**	2014
Africa and Europe	73,071.4	63,200.4
Asia-Pacific	89,360.3	95,746.5
Americas	21,801.2	31,602.1
International organisations	14,329.0	14,233.4
Total	**198,561.9**	204,782.4

B. Off-balance sheet items

As at 31 March

SDR millions	**2015**			2014		
	Gold bars held under earmark	Nominal value of securities	Net asset value of portfolio management mandates	Gold bars held under earmark	Nominal value of securities	Net asset value of portfolio management mandates
Africa and Europe	4,495.1	–	2,843.1	4,138.6	–	3,588.5
Asia-Pacific	4,637.4	4,733.0	8,981.7	2,866.3	5,295.9	7,059.7
Americas	3,123.9	38.9	1,812.9	3,412.5	34.8	1,483.5
Total	**12,256.4**	**4,771.9**	**13,637.7**	10,417.4	5,330.7	12,131.7

C. Credit commitments

As at 31 March

SDR millions	**2015**	2014
Africa and Europe	233.5	267.5
Asia-Pacific	2,863.0	2,655.4
Total	**3,096.5**	2,922.9

A geographical analysis of the Bank's assets by default risk is provided in the "Risk management" section in note 3B under "Default risk by geographical region".

34. Related parties

The Bank considers the following to be its related parties:

- the members of the Board of Directors;
- the senior officials of the Bank;
- close family members of the above individuals;
- the Bank's post-employment benefit arrangements; and
- central banks whose Governor is a member of the Board of Directors and institutions that are connected with these central banks.

A listing of the members of the Board of Directors and senior officials is shown in the sections of the Annual Report entitled "Board of Directors" and "BIS Management". Note 18 provides details of the Bank's post-employment benefit arrangements.

A. Related party individuals

Note 24 provides details of the total compensation of the Board of Directors.

The total compensation of the senior officials recognised in the profit and loss account amounted to:

For the financial year ended 31 March

CHF millions	**2015**	2014
Salaries, allowances and medical cover	7.5	7.7
Post-employment benefits	2.2	2.0
Total compensation	**9.7**	9.7
SDR equivalent	7.0	6.9

The Bank offers personal deposit accounts for all staff members and its Directors. The accounts bear interest at a rate determined by the Bank based on the rate offered by the Swiss National Bank on staff accounts. The movements and total balance on personal deposit accounts relating to members of the Board of Directors and the senior officials of the Bank were as follows:

For the financial year ended 31 March

CHF millions	**2015**	2014
Balance at beginning of year	18.3	27.2
Deposits taken and other inflows	3.9	5.5
Withdrawals and other outflows	(3.3)	(14.4)
Balance at end of year	**18.9**	18.3
SDR equivalent	14.1	13.4
Interest expense on deposits in CHF millions	**0.4**	0.3
SDR equivalent	0.3	0.2

Balances related to individuals who are appointed as members of the Board of Directors or as senior officials of the Bank during the financial year are included in the table above as other inflows. Balances related to individuals who cease to be members of the Board of Directors or senior officials of the Bank during the financial year are included in the table above as other outflows.

In addition, the Bank operates a blocked personal deposit account for certain staff members who were previously members of the Bank's savings fund, which closed on 1 April 2003. The terms of these blocked accounts are such that staff members cannot make further deposits or withdrawals and the balances are paid out when they leave the Bank. The accounts bear interest at a rate determined by the Bank based on the rate offered by the Swiss National Bank on staff accounts plus 1%. The total balance of blocked accounts at 31 March 2015 was SDR 14.4 million (2014: SDR 17.0 million). They are reported under the balance sheet heading "Currency deposits".

B. Related party central banks and connected institutions

The BIS provides banking services to its customers, which are predominantly central banks, monetary authorities and international financial institutions. In fulfilling this role, the Bank in the normal course of business enters into transactions with related party central banks and connected institutions. These transactions include making advances, and taking currency and gold deposits. It is the Bank's policy to enter into transactions with related party central banks and connected institutions on similar terms and conditions to transactions with other, non-related party customers.

Currency deposits from related party central banks and connected institutions

For the financial year ended 31 March

SDR millions	**2015**	2014
Balance at beginning of year	65,417.0	36,727.9
Deposits taken	151,060.6	146,205.7
Maturities, repayments and valuation movements	(145,983.8)	(123,938.5)
Net movement on notice accounts	6,247.8	6,421.9
Balance at end of year	**76,741.6**	65,417.0
Total currency deposits at end of year	176,842.0	180,472.2
Currency deposits from related parties as a percentage of total currency deposits at end of year	43.4%	36.2%

Gold deposits from related central banks and connected institutions

For the financial year ended 31 March

SDR millions	**2015**	2014
Balance at beginning of year	7,187.0	10,849.7
Net movement on gold sight accounts	165.5	(3,662.7)
Balance at end of year	**7,352.5**	7,187.0
Total gold deposits at end of year	9,857.3	11,297.5
Gold deposits from related parties as a percentage of total gold deposits at end of year	74.6%	63.6%

Gold and gold loans with related central banks and connected institutions

For the financial year ended 31 March

SDR millions	**2015**	2014
Balance at beginning of year	20,292.9	35,074.5
Gold loans placed	1,330.3	–
Gold price movement and accrued interest on gold and gold loans	47.6	–
Net movement on gold sight accounts (including gold price movement)	(7,696.9)	(14,781.6)
Balance at end of year	**13,973.9**	20,292.9
Total gold and gold loans at end of year	14,155.5	20,596.4
Gold and gold loans with related parties as a percentage of total gold and gold loans at end of year	98.7%	98.5%

Debt securities issued by related central banks and connected institutions

For the financial year ended 31 March

SDR millions	**2015**	2014
Balance at beginning of year	271.2	81.2
Purchases of debt securities issued by related parties	36.1	361.2
Maturities and sales of debt securities issued by related parties	(143.6)	(171.2)
Balance at end of year	**163.7**	271.2
Total government and other securities and treasury bills at end of year	114,836.2	114,571.9
Debt securities issued by related parties as a percentage of total government and other securities and treasury bills at end of year	0.1%	0.2%

Securities purchased under resale agreements with related party central banks and connected institutions

For the financial year ended 31 March

SDR millions	**2015**	2014
Balance at beginning of year	1,357.7	3,994.3
Collateralised deposits placed	1,076,269.1	1,038,178.0
Maturities and valuation movements	(1,074,113.8)	(1,040,814.6)
Balance at end of year	**3,513.0**	1,357.7
Total securities purchased under resale agreements	49,003.6	50,554.4
Securities purchased under resale agreements with related parties as a percentage of total securities purchased under resale agreements at end of year	7.2%	2.7%

Derivative transactions with related party central banks and connected institutions

The Bank enters into derivative transactions with related party central banks and connected institutions, including foreign exchange deals and interest rate swaps. The total nominal value of these transactions with related party central banks and connected institutions during the year ended 31 March 2015 was SDR 23,476.1 million (2014: SDR 18,430.1 million).

Other balances and transactions with related party central banks and connected institutions

The Bank maintains sight accounts in currencies with related party central banks and connected institutions with a total balance of SDR 11,330.3 million at 31 March 2015 (2014: SDR 11,202.1 million).

During the financial year, the Bank purchased third-party securities from central banks and connected institutions amounting to SDR 2,291.1 million (2014: SDR 1,688.6 million).

The Bank provides committed standby facilities for customers; at 31 March 2015 the Bank had outstanding commitments to extend credit under facilities to related parties of SDR 315.6 million (2014: SDR 271.1 million).

35. Contingent liabilities

In the opinion of the Bank's Management there were no significant contingent liabilities at 31 March 2015 (2014: nil).

Capital adequacy

1. Capital adequacy frameworks

As an international financial institution that is overseen by a Board composed of Governors of major central banks and that has no national supervisor, the Bank is committed to maintaining its superior credit quality and financial strength, in particular in situations of financial stress.

The Bank continuously assesses its capital adequacy based on an annual capital planning process that focuses on two elements: an economic capital framework and a financial leverage framework. The disclosures in this section related to credit, market, operational and liquidity risk are based on the Bank's own assessment of capital adequacy derived in accordance with these two BIS frameworks.

Regulatory capital ratios are not used as indicators of BIS capital adequacy because key aspects of the business model for the BIS banking activities are not adequately captured. In the main, these relate to the high level of solvency targeted by the Bank as well as the way regulatory capital ratios reflect portfolio concentrations and interest rate risk in the banking book.

To facilitate comparability, the Bank has implemented a framework that is consistent with the revised *International Convergence of Capital Measurement and Capital Standards* (Basel II framework) issued by the Basel Committee on Banking Supervision in June 2006. Following that framework, the Bank discloses a Tier 1 capital ratio (Pillar 1), risk-weighted assets and more detailed related information. In addition, the Bank calculates for reference a Common Equity Tier 1 capital ratio as defined in Basel III.

The Bank maintains a capital position substantially in excess of the regulatory minimum requirement in order to ensure its superior credit quality.

2. Economic capital

The Bank's economic capital methodology relates its risk-taking capacity to the amount of economic capital needed to absorb potential losses arising from its exposures. The risk-taking capacity is defined as allocatable economic capital that is derived following a prudent assessment of the components of the Bank's equity, which are set out in the table below:

As at 31 March

SDR millions	**2015**	2014
Share capital	698.9	698.9
Statutory reserves per balance sheet	14,579.7	14,280.4
Less: shares held in treasury	(1.7)	(1.7)
Share capital and reserves	**15,276.9**	14,977.6
Securities revaluation account	234.9	132.4
Gold revaluation account	2,467.4	2,437.5
Re-measurement of defined benefit obligations	(249.0)	(238.9)
Other equity accounts	**2,453.3**	2,331.0
Profit and loss account	**542.9**	419.3
Total equity	**18,273.1**	17,727.9

Allocatable economic capital is determined following a prudent evaluation of the Bank's equity components for their loss absorption capacity and sustainability. The components of capital with long-term risk-bearing capacity are the Bank's Tier 1 capital and the sustainable portion of the securities and gold revaluation reserves ("sustainable supplementary capital"). Only this "allocatable capital" is available for allocation to the various categories of risk. The portion of revaluation reserves that is considered more transitory in nature is assigned to the "capital filter" together with the profit accrued during the financial year.

As at 31 March

SDR millions	2015	2014
Share capital and reserves	15,276.9	14,977.6
Re-measurement of defined benefit obligations	(249.0)	(238.9)
Tier 1 capital	**15,027.9**	14,738.7
Sustainable supplementary capital	1,772.1	1,661.3
Allocatable capital	**16,800.0**	16,400.0
Capital filter	1,473.1	1,327.9
Total equity	**18,273.1**	17,727.9

As part of the annual capital planning process, Management allocates economic capital to risk categories within the amount of allocatable capital. As a first step, capital is assigned to an "economic capital cushion" that provides an additional margin of safety and is sufficient to sustain a potential material loss without the need to reduce the capital allocation to individual risk categories or to liquidate any holdings of assets. The level of the economic capital cushion is determined based on stress tests that explore extreme but still plausible default events. Allocations are then made to each category of financial risk (ie credit, market and "other risks") as well as operational risk. "Other risks" are risks that have been identified but that are not taken into account in the economic capital utilisation calculations, and include model risk and residual basis risk. Reflecting the high level of solvency targeted by the Bank, the economic capital framework measures economic capital to a 99.995% confidence level assuming a one-year horizon, except for settlement risk (included in the utilisation for credit risk) and other risks. The amount of economic capital set aside for settlement risk and other risks is based on an assessment by Management. The Bank's economic capital framework is subject to regular review and calibration.

With effect from 1 July 2014, the Bank calculates the economic capital utilisation for market risk on the basis of a stressed market data set. The reported economic capital utilisation figures for market risk for the prior reporting period have been restated for comparative purposes. The restatement resulted in an increase in the economic capital for market risk of SDR 931.9 million as at 31 March 2014. The following table summarises the Bank's economic capital allocation and utilisation for credit risk, market risk, operational risk and other risks:

As at 31 March

	2015		2014	
SDR millions	Allocation	Utilisation	Allocation	Utilisation
Insolvency and transfer risk	8,800.0	8,102.7	8,200.0	7,474.1
FX settlement risk	300.0	300.0	300.0	300.0
Credit risk	9,100.0	8,402.7	8,500.0	7,774.1
Market risk – restated	3,900.0	3,434.7	4,100.0	3,110.3
Operational risk	1,200.0	1,200.0	1,200.0	1,200.0
Other risks	300.0	300.0	300.0	300.0
Economic capital cushion	2,300.0	2,300.0	2,300.0	2,300.0
Total economic capital	**16,800.0**	**15,637.4**	16,400.0	14,684.4

3. Financial leverage

The Bank complements its capital adequacy assessment with a prudent financial leverage framework. As from 1 July 2014, the Bank monitors its financial leverage using a ratio that takes account of regulatory guidance issued by the Basel Committee on Banking Supervision related to the leverage ratio. The Bank thereby uses a leverage ratio that compares the Bank's adjusted common equity with its total exposure. However, to reflect the scope and nature of its banking activities, the Bank's definition of adjusted common equity limits the recognition of revaluation reserves to the proportion of the gold and securities revaluation reserves that is considered sustainable ("sustainable supplementary capital"). Further, the exposure measure is supplemented by the inclusion of committed and uncommitted facilities, and pension fund assets.

The table below shows the calculation of the Bank's financial leverage ratio under the methodology in effect since 1 July 2014. This table does not include comparative data as at 31 March 2014 because the methodology was not in use on that date.

As at 31 March

SDR millions	**2015**
Adjusted common equity	
Share capital and reserves	**15,276.9**
Sustainable supplementary capital	**1,772.1**
Prudential adjustments	**(267.6)**
Re-measurement losses on defined benefit obligations	(249.0)
Intangible assets	(18.6)
Total adjusted common equity (A)	**16,781.4**
Exposure	
Total balance sheet assets	**216,835.0**
Exposure adjustments:	**4,828.1**
Derivatives	(609.3)
Securities purchased under resale agreements	20.9
Committed and uncommitted facilities	4,295.4
Pension fund assets	1,121.1
Total exposure (B)	**221,663.1**
BIS leverage ratio (A) / (B)	**7.6%**

The Basel III leverage ratio differs from the above in using Common Equity Tier 1 as its capital measure instead of adjusted common equity (item A in the table above). The Basel III leverage ratio was 8.0% as at 31 March 2015.

Before 1 July 2014, the Bank monitored its financial leverage using a leverage ratio that compared the Bank's Tier 1 capital with its total balance sheet assets. Total balance sheet assets include derivative assets and securities purchased under repurchase agreements ("reverse repurchase agreements") on a gross basis in accordance with the Bank's accounting policies. The table below shows the calculation of the Bank's financial leverage ratio under the previous methodology:

As at 31 March

SDR millions	2014
Tier 1 capital (A)	14,738.7
Total balance sheet assets (B)	222,510.3
Financial leverage ratio (A) / (B)	6.6%

4. Capital ratios

The economic capital framework and the financial leverage framework described above are the main tools used for assessing the Bank's capital adequacy. Risk-weighted assets, minimum capital requirements and capital ratios are disclosed to facilitate comparability. Guidance issued by the Basel Committee on Banking Supervision includes several approaches for calculating risk-weighted assets and the corresponding minimum capital requirements. In principle, the minimum capital requirements are determined by taking 8% of the risk-weighted assets.

For credit risk, the Bank has adopted the advanced internal ratings-based approach for the majority of its exposures. Under this approach, the risk weighting for a transaction is determined by the relevant risk weight function using the Bank's own estimates for key inputs. For securitisation exposures and relevant other assets, the Bank has adopted the standardised approach. Under this approach, risk weightings are mapped to exposure types.

Risk-weighted assets for market risk are derived following an internal models approach. For operational risk, the advanced measurement approach is used. Both these approaches rely on value-at-risk (VaR) methodologies.

More details on the assumptions underlying the calculations are provided in notes 3, 4 and 5 of the "Risk management" section.

A. Tier 1 capital ratio

The following table summarises the relevant exposure types as well as the risk-weighted assets and related minimum capital requirements for credit risk, market risk and operational risk under the Basel II framework:

As at 31 March		**2015**			2014		
SDR millions	Approach used	Amount of exposure	Risk-weighted assets (A)	Minimum capital requirement (B)	Amount of exposure	Risk-weighted assets (A)	Minimum capital requirement (B)
Credit risk							
Exposure to sovereigns, banks and corporates	Advanced internal ratings-based approach, where (B) is derived as (A) x 8%	148,838.8	11,531.8	922.5	144,885.9	10,152.5	812.2
Securitisation exposures and other assets	Standardised approach, where (B) is derived as (A) x 8%	1,023.5	371.3	29.7	1,078.6	386.2	30.9
Market risk							
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	–	9,894.5	791.6	–	11,244.9	899.6
Operational risk	Advanced measurement approach, where (A) is derived as (B) / 8%	–	10,396.6	831.7	–	10,154.1	812.3
Total			**32,194.2**	**2,575.5**		31,937.7	2,555.0

The capital ratio measures capital adequacy by comparing the Bank's Tier 1 capital with its risk-weighted assets. The Tier 1 capital ratio, consistent with the Basel II framework, is provided in the table below:

As at 31 March

SDR millions	**2015**	2014
Share capital and reserves	15,276.9	14,977.6
Re-measurement losses on defined benefit obligations	(249.0)	(238.9)
Tier 1 capital	**15,027.9**	14,738.7
Expected loss	(22.2)	(19.9)
Tier 1 capital net of expected loss (A)	**15,005.7**	14,718.8
Total risk-weighted assets (B)	32,194.2	31,937.7
Tier 1 capital ratio (A) / (B)	**46.6%**	46.1%

Expected loss is calculated for credit risk exposures subject to the advanced internal ratings-based approach. The expected loss is calculated at the balance sheet date taking into account any impairment provision which is reflected in the Bank's financial statements. The Bank had no impaired financial assets at 31 March 2015 (2014: nil). In accordance with the requirements of the Basel II framework, any expected loss is compared with the impairment provision and any shortfall is deducted from the Bank's Tier 1 capital.

B. Common Equity Tier 1 capital ratio

To facilitate comparability, information on risk-weighted assets and related minimum capital requirements calculated under the Basel III framework is provided in the following table. Relating to market risk, Basel III risk-weighted assets are calculated as the sum of risk-weighted assets based on a stressed VaR and the Basel II market risk-weighted assets (presented in the previous section). Credit risk-weighted assets also differ, mainly due to the asset value correlation multiplier for large financial institutions.

As at 31 March		2015			2014		
SDR millions	Approach used	Amount of exposure	Risk-weighted assets (A)	Minimum capital requirement (B)	Amount of exposure	Risk-weighted assets (A)	Minimum capital requirement (B)
Credit risk							
Exposure to sovereigns, banks and corporates	Advanced internal ratings-based approach, where (B) is derived as (A) x 8%	148,838.8	12,831.8	1,026.6	144,885.9	11,782.8	942.6
Securitisation exposures and other assets	Standardised approach, where (B) is derived as (A) x 8%	1,023.5	371.3	29.7	1,078.6	386.2	30.9
Market risk							
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	–	27,867.9	2,229.4	–	29,065.1	2,325.2
Operational risk	Advanced measurement approach, where (A) is derived as (B) / 8%	–	10,396.6	831.7	–	10,154.1	812.3
Total			**51,467.6**	**4,117.4**		51,388.2	4,111.0

The Common Equity Tier 1 capital ratio calculated under the Basel III framework is set out in the table below:

As at 31 March

SDR millions	**2015**	2014
Share capital and reserves	15,276.9	14,977.6
Revaluation reserves	2,702.3	2,569.9
Prudential adjustments	(289.8)	(275.5)
Re-measurement losses on defined benefit obligations	(249.0)	(238.9)
Expected loss	(22.2)	(19.9)
Intangible assets	(18.6)	(16.7)
Common Equity Tier 1 capital (A)	**17,689.4**	17,272.0
Total risk-weighted assets (B)	**51,467.6**	51,388.2
Common Equity Tier 1 capital ratio (A) / (B)	**34.4%**	33.6%

Risk management

1. Risks faced by the Bank

The Bank supports its customers, predominantly central banks, monetary authorities and international financial institutions, in the management of their reserves and related financial activities.

Banking activities form an essential element of meeting the Bank's objectives and ensure its financial strength and independence. The BIS engages in banking activities that are customer-related as well as activities that are related to the investment of its equity, each of which may give rise to financial risk comprising credit risk, market risk and liquidity risk. The Bank is also exposed to operational risk.

Within the risk frameworks defined by the Board of Directors, the Management of the Bank has established risk management policies designed to ensure that risks are identified, appropriately measured and controlled as well as monitored and reported.

2. Risk management approach and organisation

The Bank maintains superior credit quality and adopts a prudent approach to financial risk-taking, by:

- maintaining an exceptionally strong capital position;
- investing its assets predominantly in high credit quality financial instruments;
- seeking to diversify its assets across a range of sectors;
- adopting a conservative approach to its tactical market risk-taking and carefully managing market risk associated with the Bank's strategic positions, which include its gold holdings; and
- maintaining a high level of liquidity.

A. Organisation

Under Article 39 of the Bank's Statutes, the General Manager is responsible to the Board for the management of the Bank, and is assisted by the Deputy General Manager. The Deputy General Manager is responsible for the Bank's independent risk control and compliance functions. The General Manager and the Deputy General Manager are supported by senior management advisory committees.

The key advisory committees are the Executive Committee, the Finance Committee and the Compliance and Operational Risk Committee. The first two committees are chaired by the General Manager and the third by the Deputy General Manager, and all include other senior members of the Bank's Management. The Executive Committee advises the General Manager primarily on the Bank's strategic planning and the allocation of resources, as well as on decisions related to the broad financial objectives for the banking activities and operational risk management. The Finance Committee advises the General Manager on the financial management and policy issues related to the banking business, including the allocation of economic capital to risk categories. The Compliance and Operational Risk Committee acts as an advisory committee to the Deputy General Manager and ensures the coordination of compliance matters and operational risk management throughout the Bank.

The independent risk control function for financial risks is performed by the Risk Control unit. The independent operational risk control function is shared between Risk Control, which maintains the operational risk quantification, and the Compliance and Operational Risk Unit. Both units report directly to the Deputy General Manager.

The Bank's compliance function is performed by the Compliance and Operational Risk Unit. The objective of this function is to provide reasonable assurance that the activities of the Bank and its staff conform to applicable laws and regulations, the BIS Statutes, the Bank's Code of Conduct and other internal rules, policies and relevant standards of sound practice.

The Compliance and Operational Risk Unit identifies and assesses compliance risks and guides and educates staff on compliance issues. The Head of the Compliance and Operational Risk Unit also has a direct reporting line to the Audit Committee, which is an advisory committee to the Board of Directors.

The Finance unit and the Legal Service complement the Bank's risk management. The Finance unit operates an independent valuation control function, produces the Bank's financial statements and controls the Bank's expenditure by setting and monitoring the annual budget. The objective of the independent valuation control function is to ensure that the Bank's valuations comply with its valuation policy and procedures, and that the processes and procedures which influence the Bank's valuations conform to best practice guidelines. The Finance unit reports to the Deputy General Manager and the Secretary General.

The Legal Service provides legal advice and support covering a wide range of issues relating to the Bank's activities. The Legal Service has a direct reporting line to the General Manager.

The Internal Audit function reviews internal control procedures and reports on how they comply with internal standards and industry best practices. The scope of internal audit work includes the review of risk management procedures, internal control systems, information systems and governance processes. Internal Audit has reporting lines to the General Manager and the Deputy General Manager, and to the Audit Committee.

B. Risk monitoring and reporting

The Bank's financial and operational risk profile, position and performance are monitored on an ongoing basis by the relevant units. Financial risk and compliance reports aimed at various management levels are provided regularly to enable Management to adequately assess the Bank's risk profile and financial condition.

Management reports financial and risk information to the Board of Directors on a monthly and a quarterly basis. Furthermore, the Audit Committee receives regular reports from Internal Audit, the Compliance and Operational Risk Unit and the Finance unit. The Banking and Risk Management Committee, another advisory committee to the Board, receives regular reports from the Risk Control unit. The preparation of reports is subject to comprehensive policies and procedures, thus ensuring strong controls.

C. Risk methodologies

The Bank revalues virtually all of its financial instruments to fair value on a daily basis and reviews its valuations monthly, taking into account necessary adjustments for impairment. It uses a comprehensive range of quantitative methodologies for valuing financial instruments and for measuring risk to its net profit and equity. The Bank reassesses its quantitative methodologies in the light of its changing risk environment and evolving best practice.

The Bank's model validation policy defines the roles and responsibilities and processes related to the implementation of new or materially changed risk models.

A key methodology used by the Bank to measure and manage risk is the calculation of economic capital based on value-at-risk (VaR) techniques. VaR expresses the statistical estimate of the maximum potential loss on the current positions of the Bank measured to a specified level of confidence and a specified time horizon. VaR models depend on statistical assumptions and the quality of available market data and, while forward-looking, they extrapolate from past events. VaR models may underestimate potential losses if changes in risk factors fail to align with the distribution assumptions. VaR figures do not provide any information on losses that may occur beyond the assumed confidence level.

The Bank's economic capital framework covers credit risk, market risk, operational risk and other risks. As part of the annual capital planning process, the Bank allocates economic capital to the above risk categories commensurate with principles set by the Board and taking account of the business strategy. Reflecting the high solvency level targeted by the Bank, the economic capital framework measures economic capital to a 99.995% confidence level assuming a one-year holding period. An additional amount of economic capital is set aside for "other risks" based on Management's assessment of risks which are not reflected in the economic capital calculations. Moreover, capital is also allocated to an "economic capital cushion" that is based on stress tests that explore extreme but still plausible default events. The economic capital cushion provides an additional margin of safety to sustain a potential material loss without the need to reduce the capital allocated to individual risk categories or to liquidate any holdings of assets.

The management of the Bank's capital adequacy is complemented by a comprehensive stress testing framework, and a prudent financial leverage framework. The stress testing framework supplements the Bank's risk assessment including its VaR and economic capital calculations for financial risk. The Bank's key market risk factors and credit exposures are stress-tested. The stress testing includes the analysis of severe historical and adverse hypothetical macroeconomic scenarios, as well as sensitivity tests of extreme but still plausible movements of the key risk factors identified. The Bank also performs stress tests related to liquidity risk. The financial leverage framework focuses on a ratio that sets the Bank's adjusted common equity in relation to its total balance sheet exposure.

3. Credit risk

Credit risk arises because a counterparty may fail to meet its obligations in accordance with the agreed contractual terms and conditions. A financial asset is considered past due when a counterparty fails to make a payment on the contractual due date.

The Bank manages credit risk within a framework and policies set by the Board of Directors and Management. These are complemented by more detailed guidelines and procedures at the level of the independent risk control function.

A. Credit risk assessment

Credit risk is continuously controlled at both a counterparty and an aggregated level. As part of the independent risk control function, individual counterparty credit assessments are performed subject to a well defined internal rating process, involving 18 rating grades. As part of this process, counterparty financial statements and market information are analysed. The rating methodologies depend on the nature of the counterparty. Based on the internal rating and specific counterparty features, the Bank sets a series of credit limits covering individual counterparties and countries. Internal ratings are assigned to all counterparties. In principle, the ratings and related limits are reviewed at least annually. The main assessment criterion in these reviews is the ability of the counterparties to meet interest and principal repayment obligations in a timely manner.

Credit risk limits at the counterparty level are approved by the Bank's Management and fit within a framework set by the Board of Directors.

On an aggregated level, credit risk, including default and country transfer risk, is measured, monitored and controlled based on the Bank's economic capital calculation for credit risk. To calculate economic capital for credit risk, the Bank uses a portfolio VaR model. Management limits the Bank's overall exposure to credit risk by allocating an amount of economic capital to credit risk.

B. Default risk

The following tables show the exposure of the Bank to default risk, without taking into account any collateral held or other credit enhancements available to the Bank. Credit risk is mitigated through the use of collateral and legally enforceable netting or setoff agreements. The corresponding assets and liabilities are not offset on the balance sheet.

The exposures set out in the tables below are based on the carrying value of the assets on the balance sheet as categorised by sector, geographical region and credit quality. The carrying value is the fair value of the financial instruments, including derivatives, except in the case of very short-term financial instruments (sight and notice accounts) and gold, which are shown at amortised cost net of any impairment charge. Commitments are reported at their notional amounts. Gold and gold loans exclude gold bar assets held in custody, and accounts receivable do not include unsettled liability issues, because these items do not represent credit exposures of the Bank.

The vast majority of the Bank's assets are invested in securities issued by governments and financial institutions rated A– or above by at least one of the major external credit assessment institutions. Limitations on the number of high-quality counterparties in these sectors mean that the Bank is exposed to single-name concentration risk.

The Bank conducts an annual review for impairment at the date of each balance sheet. At 31 March 2015 the Bank did not have any financial assets that were considered to be impaired (2014: nil). At 31 March 2015 no financial assets were considered past due (2014: nil). No credit loss was recognised in the current period.

Default risk by asset class and issuer type

The following tables show the exposure of the Bank to default risk by asset class and issuer type, without taking into account any collateral held or other credit enhancements available to the Bank. "Public sector" includes international and other public sector institutions.

As at 31 March 2015

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposures						
Cash and sight accounts with banks	11,333.9	–	41.4	–	–	11,375.3
Gold and gold loans	–	–	181.6	–	–	181.6
Treasury bills	33,439.4	486.6	–	–	–	33,926.0
Securities purchased under resale agreements	3,513.0	–	39,012.0	6,478.6	–	49,003.6
Loans and advances	1,407.8	819.2	15,739.2	–	–	17,966.2
Government and other securities	54,025.6	11,883.6	6,381.3	7,797.8	821.9	80,910.2
Derivative financial instruments	293.7	124.7	6,539.3	1.0	–	6,958.7
Accounts receivable	2.9	–	0.2	6.8	–	9.9
Total on-balance sheet exposure	**104,016.3**	**13,314.1**	**67,895.0**	**14,284.2**	**821.9**	**200,331.5**
Commitments						
Undrawn secured facilities	3,096.5	–	–	–	–	3,096.5
Total commitments	**3,096.5**	**–**	**–**	**–**	**–**	**3,096.5**
Total exposure	**107,112.8**	**13,314.1**	**67,895.0**	**14,284.2**	**821.9**	**203,428.0**

As at 31 March 2014

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposures						
Cash and sight accounts with banks	11,206.0	–	5.5	–	–	11,211.5
Gold and gold loans	–	–	236.8	–	–	236.8
Treasury bills	43,982.9	547.9	–	–	–	44,530.8
Securities purchased under resale agreements	1,357.7	–	47,347.0	1,849.7	–	50,554.4
Loans and advances	647.1	493.9	18,459.3	–	–	19,600.3
Government and other securities	43,835.2	12,606.5	5,608.8	7,053.1	937.5	70,041.1
Derivative financial instruments	13.7	43.3	2,944.5	0.7	–	3,002.2
Accounts receivable	2.8	–	0.2	7.8	–	10.8
Total on-balance sheet exposure	101,045.4	13,691.6	74,602.1	8,911.3	937.5	199,187.9
Commitments						
Undrawn unsecured facilities	194.1	–	–	–	–	194.1
Undrawn secured facilities	2,728.8	–	–	–	–	2,728.8
Total commitments	2,922.9	–	–	–	–	2,922.9
Total exposure	103,968.3	13,691.6	74,602.1	8,911.3	937.5	202,110.8

Default risk by geographical region

The following tables represent the exposure of the Bank to default risk by asset class and geographical region, without taking into account any collateral held or other credit enhancements available to the Bank. The Bank has allocated exposures to regions based on the country of incorporation of each legal entity to which the Bank has exposures.

As at 31 March 2015

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposures					
Cash and sight accounts with banks	8,313.0	3,057.0	5.3	–	11,375.3
Gold and gold loans	181.6	–	–	–	181.6
Treasury bills	10,061.8	19,776.0	3,601.6	486.6	33,926.0
Securities purchased under resale agreements	45,490.6	–	3,513.0	–	49,003.6
Loans and advances	11,418.7	4,552.4	1,489.6	505.5	17,966.2
Government and other securities	43,798.6	8,814.3	20,840.2	7,457.1	80,910.2
Derivative financial instruments	5,124.6	655.4	1,178.7	–	6,958.7
Accounts receivable	8.8	0.9	0.2	–	9.9
Total on-balance sheet exposure	**124,397.7**	**36,856.0**	**30,628.6**	**8,449.2**	**200,331.5**
Commitments					
Undrawn secured facilities	233.5	2,863.0	–	–	3,096.5
Total commitments	**233.5**	**2,863.0**	**–**	**–**	**3,096.5**
Total exposure	**124,631.2**	**39,719.0**	**30,628.6**	**8,449.2**	**203,428.0**

As at 31 March 2014

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposures					
Cash and sight accounts with banks	6,199.6	5,001.6	10.3	–	11,211.5
Gold and gold loans	98.2	–	138.6	–	236.8
Treasury bills	7,806.6	32,030.6	4,145.7	547.9	44,530.8
Securities purchased under resale agreements	42,240.1	–	8,314.3	–	50,554.4
Loans and advances	11,792.1	6,411.2	1,097.3	299.7	19,600.3
Government and other securities	31,805.7	5,081.3	25,339.4	7,814.7	70,041.1
Derivative financial instruments	2,318.2	86.6	597.4	–	3,002.2
Accounts receivable	9.7	0.9	0.2	–	10.8
Total on-balance sheet exposure	102,270.2	48,612.2	39,643.2	8,662.3	199,187.9
Commitments					
Undrawn unsecured facilities	–	194.1	–	–	194.1
Undrawn secured facilities	267.5	2,461.3	–	–	2,728.8
Total commitments	267.5	2,655.4	–	–	2,922.9
Total exposure	102,537.7	51,267.6	39,643.2	8,662.3	202,110.8

Default risk by counterparty / issuer rating

The following tables show the exposure of the Bank to default risk by class of financial asset and counterparty / issuer rating, without taking into account any collateral held or other credit enhancements available to the Bank. The ratings shown reflect the Bank's internal ratings expressed as equivalent external ratings.

As at 31 March 2015

SDR millions	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposures							
Cash and sight accounts with banks	8,268.1	48.1	3,057.8	1.0	0.3	–	11,375.3
Gold and gold loans	–	–	181.6	–	–	–	181.6
Treasury bills	3,746.7	7,001.1	19,314.5	3,863.7	–	–	33,926.0
Securities purchased under resale agreements	–	9,991.6	30,334.2	8,677.8	–	–	49,003.6
Loans and advances	813.9	–	16,363.3	426.6	362.4	–	17,966.2
Government and other securities	22,906.1	40,599.6	15,796.9	1,607.6	–	–	80,910.2
Derivative financial instruments	111.5	129.6	6,385.9	320.4	1.6	9.7	6,958.7
Accounts receivable	–	0.2	0.2	0.4	0.7	8.4	9.9
Total on-balance sheet exposure	**35,846.3**	**57,770.2**	**91,434.4**	**14,897.5**	**365.0**	**18.1**	**200,331.5**
Commitments							
Undrawn secured facilities	–	925.7	946.9	990.3	233.6	–	3,096.5
Total commitments	**–**	**925.7**	**946.9**	**990.3**	**233.6**	**–**	**3,096.5**
Total exposure	**35,846.3**	**58,695.9**	**92,381.3**	**15,887.8**	**598.6**	**18.1**	**203,428.0**

As at 31 March 2014

SDR millions	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposures							
Cash and sight accounts with banks	6,120.1	88.2	5,001.9	1.0	0.3	–	11,211.5
Gold and gold loans	–	–	236.8	–	–	–	236.8
Treasury bills	2,144.9	7,725.7	31,042.6	3,617.6	–	–	44,530.8
Securities purchased under resale agreements	–	3,207.4	35,215.4	12,131.6	–	–	50,554.4
Loans and advances	1,141.1	1,188.9	16,213.4	1,056.9	–	–	19,600.3
Government and other securities	13,159.1	44,218.0	11,118.9	1,532.5	12.6	–	70,041.1
Derivative financial instruments	16.2	71.5	2,845.8	67.7	0.4	0.6	3,002.2
Accounts receivable	0.1	0.2	0.2	0.7	0.7	8.9	10.8
Total on-balance sheet exposure	22,581.5	56,499.9	101,675.0	18,408.0	14.0	9.5	199,187.9
Commitments							
Undrawn unsecured facilities	–	–	–	194.1	–	–	194.1
Undrawn secured facilities	–	797.2	813.2	1,118.4	–	–	2,728.8
Total commitments	–	797.2	813.2	1,312.5	–	–	2,922.9
Total exposure	22,581.5	57,297.1	102,488.2	19,720.5	14.0	9.5	202,110.8

C. Credit risk mitigation

Netting

Netting agreements give the Bank a legally enforceable right to net transactions with counterparties under potential future conditions, notably an event of default. Such master netting or similar agreements apply to counterparties with whom the Bank conducts most of its derivative transactions, as well as to counterparties for repurchase and reverse repurchase agreements. Where required, netting is applied when determining the amount of collateral to be requested or provided, but the Bank does not settle assets and liabilities on a net basis during the normal course of business. As such, the amounts shown on the Bank's balance sheet are the gross amounts.

Collateral

The Bank also mitigates the credit risks it is exposed to by requiring counterparties to provide collateral. The Bank receives collateral in respect of most derivative contracts, reverse repurchase agreements and for advances made under collateralised facility agreements. During the term of these transactions, further collateral may be called or collateral may be released based on the movements in value of both the underlying instrument and the collateral that has been received. The Bank is required to provide collateral in respect of repurchase agreements.

For derivative contracts and reverse repurchase agreements, the Bank accepts as collateral high-quality sovereign, state agency and supranational securities and, in a limited number of cases, cash. For advances made under collateralised facility agreements, eligible collateral accepted includes currency deposits with the Bank as well as units in the BIS Investment Pools.

Under the terms of its collateral arrangements, the Bank is permitted to sell ("re-hypothecate") collateral received on derivative contracts and reverse repurchase agreements, but upon expiry of the transaction must return equivalent financial instruments to the counterparty. At 31 March 2015 the Bank had not sold any of the collateral it held (2014: nil).

The fair value of collateral held which the Bank had the right to sell was:

As at 31 March

SDR millions	**2015**	2014
Collateral held in respect of:		
Derivatives	4,003.7	515.9
Securities purchased under resale agreements	38,825.4	42,378.7
Total	**42,829.1**	42,894.6

Financial assets and liabilities subject to netting or collateralisation

The tables below show the categories of assets and liabilities which are either subject to collateralisation, or for which netting agreements would apply under potential future conditions such as the event of default of a counterparty.

The amount of collateral required is usually based on valuations performed on the previous business day, whereas the Bank's balance sheet reflects the valuations of the reporting date. Due to this timing difference, the valuation of collateral can be higher than the valuation of the underlying contract in the Bank's balance sheet. The amount of the collateral obtained is also impacted by thresholds, minimum transfer amounts and valuation adjustments ("haircuts") specified in the contracts. In these tables, the mitigating effect of collateral has been limited to the balance sheet value of the underlying net asset.

As at 31 March 2015		Effect of risk mitigation				Analysed as:	
SDR millions	Gross carrying amount as per balance sheet	Adjustments for settlement date effects	Enforceable netting agreements	Collateral (received) / provided (limited to balance sheet value)	Exposure after risk mitigation	Amounts not subject to risk mitigation agreements	Amounts subject to risk mitigation agreements
Financial assets							
Securities purchased under resale agreements	49,003.6	(6,813.4)	–	(42,169.2)	21.0	–	21.0
Advances	1,413.1	–	–	(1,413.1)	–	–	–
Derivative financial assets	6,958.7	–	(2,001.8)	(3,961.1)	995.8	81.8	914.0
Financial liabilities							
Securities sold under repurchase agreements	(773.3)	–	–	773.1	.	.	.
Derivative financial liabilities	(2,162.2)	–	2,001.8	–	.	.	.

As at 31 March 2014		Effect of risk mitigation				Analysed as:	
SDR millions	Gross carrying amount as per balance sheet	Adjustments for settlement date effects	Enforceable netting agreements	Collateral (received) / provided (limited to balance sheet value)	Exposure after risk mitigation	Amounts not subject to risk mitigation agreements	Amounts subject to risk mitigation agreements
Financial assets							
Securities purchased under resale agreements	50,554.4	(7,107.9)	–	(43,422.2)	24.3	–	24.3
Derivative financial assets	3,002.2	–	(2,325.7)	(509.9)	166.6	7.0	159.6
Financial liabilities							
Securities sold under repurchase agreements	(1,169.3)	249.9	–	919.4	.	.	.
Derivative financial liabilities	(2,632.9)	–	2,325.7	–	.	.	.

D. Economic capital for credit risk

The Bank determines economic capital for credit risk (except for settlement risk, which is included in the utilisation for credit risk) using a VaR methodology on the basis of a portfolio VaR model, assuming a one-year time horizon and a 99.995% confidence level. The amount of economic capital set aside for settlement risk reflected in the Bank's economic capital calculations is based on an assessment by Management.

As at 31 March	**2015**				2014			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for credit risk	8,124.1	8,970.1	7,372.6	**8,402.7**	7,421.5	7,990.1	6,175.7	7,774.1

E. Minimum capital requirements for credit risk

Exposure to sovereigns, banks and corporates

For the calculation of risk-weighted assets for exposures to banks, sovereigns and corporates, the Bank has adopted an approach that is consistent with the advanced internal ratings-based approach.

As a general rule, under this approach risk-weighted assets are determined by multiplying the credit risk exposures with risk weights derived from the relevant Basel II risk weight function using the Bank's own estimates for key inputs. These estimates for key inputs are also relevant to the Bank's economic capital calculation for credit risk.

The credit risk exposure for a transaction or position is referred to as the exposure at default (EAD). The Bank determines the EAD as the notional amount of all on- and off-balance sheet credit exposures, except for derivative contracts and certain collateralised exposures. The EAD for derivatives is calculated using an approach consistent with the internal models method proposed under the Basel II framework. In line with this methodology, the Bank calculates effective expected positive exposures that are then multiplied by a factor alpha as set out in the framework.

Key inputs to the risk weight function are a counterparty's estimated one-year probability of default (PD) as well as the estimated loss-given-default (LGD) and maturity for each transaction.

Due to the high credit quality of the Bank's investments and the conservative credit risk management process at the BIS, the Bank is not in a position to estimate PDs and LGDs based on its own default experience. The Bank calibrates each counterparty PD estimate through a mapping of internal rating grades to external credit assessments taking external default data into account. Similarly, LGD estimates are derived from external data. Where appropriate, these estimates are adjusted to reflect the risk-reducing effects of collateral obtained giving consideration to market price volatility, re-margining and revaluation frequency. The recognition of the risk-reducing effects of collateral obtained for derivative contracts, reverse repurchase agreements and collateralised advances is accounted for in calculating the EAD.

The table below details the calculation of risk-weighted assets. The exposures are measured taking netting and collateral benefits into account. The total amount of exposures reported in the table as at 31 March 2015 includes SDR 184.5 million for interest rate contracts (2014: SDR 208.5 million) and SDR 1,229.5 million for FX and gold contracts (2014: SDR 229.4 million). In line with the Basel II framework, the minimum capital requirement is determined as 8% of risk-weighted assets.

As at 31 March 2015

Internal rating grades expressed as equivalent external rating grades *SDR millions / percentages*	Amount of exposure *SDR millions*	Exposure-weighted PD %	Exposure-weighted average LGD %	Exposure-weighted average risk weight %	Risk-weighted assets *SDR millions*
AAA	34,886.4	0.01	35.6	2.9	1,024.7
AA	52,401.7	0.02	39.6	7.0	3,662.2
A	55,387.4	0.04	48.6	9.4	5,227.3
BBB	6,154.7	0.16	50.8	26.2	1,610.7
BB and below	8.6	1.32	50.7	80.3	6.9
Total	**148,838.8**				**11,531.8**

At 31 March 2015 the minimum capital requirement for credit risk related to exposures to sovereigns, banks and corporates amounted to SDR 922.5 million.

As at 31 March 2014

Internal rating grades expressed as equivalent external rating grades *SDR millions / percentages*	Amount of exposure *SDR millions*	Exposure-weighted PD %	Exposure-weighted average LGD %	Exposure-weighted average risk weight %	Risk-weighted assets *SDR millions*
AAA	20,887.6	0.01	35.6	3.5	727.3
AA	52,972.0	0.02	37.6	6.5	3,447.8
A	64,401.2	0.04	42.3	7.1	4,541.3
BBB	6,612.5	0.17	40.6	21.6	1,429.9
BB and below	12.6	0.70	35.6	48.8	6.2
Total	144,885.9				10,152.5

At 31 March 2014 the minimum capital requirement for credit risk related to exposures to sovereigns, banks and corporates amounted to SDR 812.2 million.

The table below summarises the impact of collateral arrangements on the amount of credit exposure after taking netting into account:

SDR millions	Amount of exposure after taking netting into account	Benefits from collateral arrangements	Amount of exposure after taking into account netting and collateral arrangements
As at 31 March 2015	204,224.3	55,385.5	**148,838.8**
As at 31 March 2014	197,550.2	52,664.3	144,885.9

Securitisation exposures

The Bank invests in highly rated securitisation exposures based on traditional, ie non-synthetic, securitisation structures. Given the scope of the Bank's activities, risk-weighted assets under the Basel II framework are determined according to the standardised approach for securitisation. Under this approach, external credit assessments of the securities are used to determine the relevant risk weights. External credit assessment institutions used for this purpose are Moody's Investors Service, Standard & Poor's and Fitch Ratings. Risk-weighted assets are then derived as the product of the market values of the exposures and the associated risk weights. In line with the Basel II framework, the minimum capital requirement is determined as 8% of risk-weighted assets.

The following table shows the Bank's investments in securitisation analysed by type of securitised assets:

As at 31 March 2015

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Residential mortgage-backed securities	A	17.5	50%	8.8
Securities backed by other receivables (government-sponsored)	AAA	804.4	20%	160.9
Total		**821.9**		**169.7**

At 31 March 2015 the minimum capital requirement for securitisation exposures amounted to SDR 13.6 million.

As at 31 March 2014

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Residential mortgage-backed securities	AAA	19.4	20%	3.9
Residential mortgage-backed securities	A	24.5	50%	12.2
Securities backed by other receivables (government-sponsored)	AAA	830.8	20%	166.2
Total		874.7		182.3

At 31 March 2014 the minimum capital requirement for securitisation exposures amounted to SDR 14.6 million.

4. Market risk

The Bank is exposed to market risk through adverse movements in market prices. The main components of the Bank's market risk are gold price risk, interest rate risk and foreign exchange risk. The Bank measures market risk and calculates economic capital based on a VaR methodology using a Monte Carlo simulation technique. Risk factor volatilities and correlations are estimated, subject to an exponential weighting scheme, over a four-year observation period. Furthermore, the Bank computes sensitivities to certain market risk factors.

In line with the Bank's objective of maintaining its superior credit quality, economic capital is measured at the 99.995% confidence level assuming a one-year holding period. As from 1 July 2014, the Bank calculates the economic capital utilisation for market risk on the basis of a stressed market data set. The Bank's Management manages market risk economic capital usage within a framework set by the Board of Directors. VaR limits are supplemented by operating limits.

To ensure that models provide a reliable measure of potential losses over the one-year time horizon, the Bank has established a comprehensive regular back-testing framework, comparing daily performance with corresponding VaR estimates. The results are analysed and reported to Management.

The Bank also supplements its market risk measurement based on VaR modelling and related economic capital calculations with a series of stress tests. These include severe historical scenarios, adverse hypothetical macroeconomic scenarios and sensitivity tests of gold price, interest rate and foreign exchange rate movements.

A. Gold price risk

Gold price risk is the exposure of the Bank's financial condition to adverse movements in the price of gold.

The Bank is exposed to gold price risk principally through its holdings of gold investment assets, which amount to 108 tonnes (2014: 111 tonnes). These gold investment assets are held in custody or placed on deposit with commercial banks. At 31 March 2015 the Bank's net gold investment assets amounted to SDR 2,998.3 million (2014: SDR 2,981.8 million), approximately 16% of its equity (2014: 17%). The Bank sometimes also has small exposures to gold price risk arising from its banking activities with central and commercial banks. Gold price risk is measured within the Bank's VaR methodology, including its economic capital framework and stress tests.

B. Interest rate risk

Interest rate risk is the exposure of the Bank's financial condition to adverse movements in interest rates including credit spreads. The Bank is exposed to interest rate risk through the interest bearing assets relating to the management of its equity held in its investment portfolios and investments relating to its banking portfolios. The investment portfolios are managed using a fixed-duration benchmark of bonds.

The Bank measures and monitors interest rate risk using a VaR methodology and sensitivity analyses taking into account movements in relevant money market rates, government bond yields, swap rates and credit spreads.

The tables below show the impact on the Bank's equity of a 1% upward shift in the relevant yield curve per time band:

As at 31 March 2015

SDR millions	Up to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Euro	(6.5)	(13.5)	(11.6)	(28.8)	(40.5)	(36.5)	(12.6)	(150.0)
Japanese yen	(1.1)	(1.8)	0.1	(0.1)	–	–	–	(2.9)
Pound sterling	(1.2)	(1.6)	(8.5)	(15.6)	(20.0)	(6.8)	0.3	(53.4)
Swiss franc	5.7	(1.1)	(1.3)	(1.2)	(0.3)	–	3.5	5.3
US dollar	(1.7)	(13.0)	(40.8)	(49.3)	(66.1)	(63.6)	(3.1)	(237.6)
Other currencies	–	0.2	(0.7)	(1.4)	(1.8)	(1.3)	(0.4)	(5.4)
Total	**(4.8)**	**(30.8)**	**(62.8)**	**(96.4)**	**(128.7)**	**(108.2)**	**(12.3)**	**(444.0)**

As at 31 March 2014

SDR millions	Up to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Euro	0.5	(7.9)	(28.6)	(41.1)	(42.7)	(35.0)	(9.9)	(164.7)
Japanese yen	(1.4)	(2.1)	0.1	(0.1)	–	–	–	(3.5)
Pound sterling	(0.2)	(1.8)	(7.7)	(15.0)	(23.8)	(4.8)	3.8	(49.5)
Swiss franc	10.3	(0.2)	(1.8)	(2.1)	(1.5)	(0.4)	5.6	9.9
US dollar	8.7	(10.2)	(34.8)	(40.6)	(58.5)	(40.1)	12.2	(163.3)
Other currencies	0.4	(0.3)	(1.4)	1.1	(2.3)	0.3	(0.3)	(2.5)
Total	18.3	(22.5)	(74.2)	(97.8)	(128.8)	(80.0)	11.4	(373.6)

C. Foreign exchange risk

The Bank's functional currency, the SDR, is a composite currency comprising fixed amounts of USD, EUR, JPY and GBP. Currency risk is the exposure of the Bank's financial condition to adverse movements in exchange rates. The Bank is exposed to foreign exchange risk primarily through the assets relating to the management of its equity. The Bank is also exposed to foreign exchange risk through managing its customer deposits and through acting as an intermediary in foreign exchange transactions. The Bank reduces its foreign exchange exposures by matching the relevant assets to the constituent currencies of the SDR on a regular basis, and by limiting currency exposures arising from customer deposits and foreign exchange transaction intermediation.

The following tables show the Bank's assets and liabilities by currency and gold exposure. The net foreign exchange and gold position in these tables therefore includes the Bank's gold investments. To determine the Bank's net foreign exchange exposure, the gold amounts need to be removed. The SDR-neutral position is then deducted from the net foreign exchange position excluding gold to arrive at the net currency exposure of the Bank on an SDR-neutral basis.

As at 31 March 2015

SDR millions	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts with banks	–	39.2	41.0	0.8	3,047.6	8,233.8	–	12.9	11,375.3
Gold and gold loans	–	0.9	–	–	–	–	14,154.6	–	14,155.5
Treasury bills	–	2,135.2	10,307.2	62.4	17,403.6	–	–	4,017.6	33,926.0
Securities purchased under resale agreements	–	5,686.7	27,415.5	14,832.7	1,068.6	–	–	0.1	49,003.6
Loans and advances	505.6	9,830.0	3,565.1	1,564.7	428.1	(2.1)	–	2,074.8	17,966.2
Government and other securities	–	33,771.5	29,973.7	6,988.2	4,205.8	–	–	5,971.0	80,910.2
Derivative financial instruments	2,744.9	79,188.3	(38,215.4)	(8,693.4)	(18,067.8)	(3,541.8)	(1,295.7)	(5,160.4)	6,958.7
Accounts receivable	–	1,133.0	1,096.0	43.1	–	6.7	–	66.6	2,345.4
Land, buildings and equipment	184.6	–	–	–	–	9.6	–	(0.1)	194.1
Total assets	**3,435.1**	**131,784.8**	**34,183.1**	**14,798.5**	**8,085.9**	**4,706.2**	**12,858.9**	**6,982.5**	**216,835.0**
Liabilities									
Currency deposits	(3,614.6)	(130,280.1)	(22,739.9)	(10,853.9)	(1,590.7)	(377.8)	–	(7,385.0)	(176,842.0)
Gold deposits	–	–	–	–	–	–	(9,857.3)	–	(9,857.3)
Securities sold under repurchase agreements	–	–	(478.0)	(295.3)	–	–	–	–	(773.3)
Derivative financial instruments	244.7	8,057.1	(564.4)	(1,715.3)	(5,012.6)	(3,823.2)	(0.4)	651.9	(2,162.2)
Accounts payable	–	(2,135.6)	(5,372.9)	(58.4)	(483.1)	–	–	0.1	(8,049.9)
Other liabilities	–	(0.6)	–	–	–	(876.3)	–	(0.3)	(877.2)
Total liabilities	**(3,369.9)**	**(124,359.2)**	**(29,155.2)**	**(12,922.9)**	**(7,086.4)**	**(5,077.3)**	**(9,857.7)**	**(6,733.3)**	**(198,561.9)**
Net currency and gold position	**65.2**	**7,425.6**	**5,027.9**	**1,875.6**	**999.5**	**(371.1)**	**3,001.2**	**249.2**	**18,273.1**
Adjustment for gold	–	–	–	–	–	–	(3,001.2)	–	(3,001.2)
Net currency position	**65.2**	**7,425.6**	**5,027.9**	**1,875.6**	**999.5**	**(371.1)**	**–**	**249.2**	**15,271.9**
SDR-neutral position	(65.2)	(7,272.0)	(5,006.8)	(1,816.9)	(1,111.0)	–	–	–	**(15,271.9)**
Net currency exposure on SDR-neutral basis	**–**	**153.6**	**21.1**	**58.7**	**(111.5)**	**(371.1)**	**–**	**249.2**	**–**

As at 31 March 2014

SDR millions	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts with banks	–	5.3	430.1	(8.8)	4,996.7	5,774.5	–	13.7	11,211.5
Gold and gold loans	–	8.6	–	–	–	–	20,587.8	–	20,596.4
Treasury bills	–	2,910.6	8,085.7	–	29,445.4	–	–	4,089.1	44,530.8
Securities purchased under resale agreements	–	13,588.4	15,725.9	20,171.7	1,068.5	–	–	(0.1)	50,554.4
Loans and advances	299.7	10,994.0	456.0	2,408.1	5.5	3.2	–	5,433.8	19,600.3
Government and other securities	–	37,816.3	18,613.1	7,562.9	1,858.8	–	–	4,190.0	70,041.1
Derivative financial instruments	1,178.2	37,183.3	(185.4)	(1,653.8)	(24,096.4)	(1,190.9)	(5,176.2)	(3,056.6)	3,002.2
Accounts receivable	–	1,793.7	429.0	511.8	–	7.8	–	35.1	2,777.4
Land, buildings and equipment	188.1	–	–	–	–	8.1	–	–	196.2
Total assets	1,666.0	104,300.2	43,554.4	28,991.9	13,278.5	4,602.7	15,411.6	10,705.0	222,510.3
Liabilities									
Currency deposits	(4,856.2)	(131,291.6)	(23,073.6)	(9,848.8)	(2,404.8)	(475.5)	–	(8,521.7)	(180,472.2)
Gold deposits	–	(7.2)	–	–	–	–	(11,290.3)	–	(11,297.5)
Securities sold under repurchase agreements	–	(323.5)	(845.8)	–	–	–	–	–	(1,169.3)
Derivative financial instruments	3,207.0	35,397.7	(11,149.1)	(13,462.1)	(9,514.9)	(4,072.6)	(1,135.8)	(1,903.1)	(2,632.9)
Accounts payable	–	(1,637.9)	(2,661.6)	(3,812.9)	(188.6)	–	–	(110.5)	(8,411.5)
Other liabilities	–	(0.6)	–	–	–	(798.1)	–	(0.3)	(799.0)
Total liabilities	(1,649.2)	(97,863.1)	(37,730.1)	(27,123.8)	(12,108.3)	(5,346.2)	(12,426.1)	(10,535.6)	(204,782.4)
Net currency and gold position	16.8	6,437.1	5,824.3	1,868.1	1,170.2	(743.5)	2,985.5	169.4	17,727.9
Adjustment for gold	–	–	–	–	–	–	(2,985.5)	–	(2,985.5)
Net currency position	16.8	6,437.1	5,824.3	1,868.1	1,170.2	(743.5)	–	169.4	14,742.4
SDR-neutral position	(16.8)	(6,289.2)	(5,553.6)	(1,762.9)	(1,119.9)	–	–	–	(14,742.4)
Net currency exposure on SDR-neutral basis	–	147.9	270.7	105.2	50.3	(743.5)	–	169.4	–

D. Economic capital for market risk

The Bank measures market risk based on a VaR methodology using a Monte Carlo simulation technique taking correlations between risk factors into account. Economic capital for market risk is also calculated following this methodology measured to the 99.995% confidence level and assuming a one-year holding period. With effect from 1 July 2014, the Bank calculates the economic capital utilisation for market risk on the basis of a stressed market data set. The reported economic capital utilisation figures for market risk for the prior reporting period have been restated for comparative purposes. The stressed data set is subject to regular review and calibrated to take account of the Bank's key market risk exposures and market risk drivers.

The Bank measures its gold price risk relative to changes in the USD value of gold. The foreign exchange risk component, resulting from changes in the USD exchange rate versus the SDR, is included in the measurement of foreign exchange risk. The table below shows the key figures of the Bank's exposure to market risk in terms of economic capital utilisation over the past two financial years:

For the financial year	**2015**				2014 restated			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for market risk	3,282.6	3,509.8	3,074.3	**3,434.7**	3,201.6	3,693.5	2,959.7	3,110.3

The table below provides further analysis of the Bank's economic capital utilisation for market risk by category of risk.

For the financial year	**2015**				2014 restated			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Gold price risk	2,111.1	2,278.1	1,960.7	**2,125.5**	2,250.0	2,766.2	1,967.8	2,115.3
Interest rate risk	2,356.4	2,680.3	2,017.3	**2,562.2**	2,137.3	2,264.1	1,966.8	2,031.3
Foreign exchange risk	895.9	985.5	789.6	**912.0**	1,082.5	1,226.0	918.3	1,006.4
Diversification effects	(2,080.8)	(2,446.2)	(1,878.4)	**(2,165.0)**	(2,268.2)	(2,441.1)	(2,042.6)	(2,042.7)
Total				**3,434.7**				3,110.3

E. Minimum capital requirements for market risk

For the calculation of minimum capital requirements for market risk under the Basel II framework, the Bank has adopted a banking book approach consistent with the scope and nature of its business activities. Consequently, market risk-weighted assets are determined for gold price risk and foreign exchange risk, but not interest rate risk. The related minimum capital requirement is derived using the VaR-based internal models method. Under this method, VaR calculations are performed using the Bank's VaR methodology, assuming a 99% confidence level and a 10-day holding period.

The actual minimum capital requirement is derived as the higher of the VaR on the calculation date and the average of the daily VaR measures on each of the preceding 60 business days (including the calculation date) subject to a multiplication factor of three plus a potential add-on depending on backtesting results. For the period under consideration, the number of backtesting outliers observed remained within the range where no add-on is required. The table below summarises the market risk development relevant to the calculation of minimum capital requirements and the related risk-weighted assets over the reporting period.

As at 31 March	**2015**			2014		
SDR millions	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)
Market risk, where (A) is derived as (B) / 8%	263.9	9,894.5	**791.6**	299.9	11,244.9	899.6

5. Operational risk

Operational risk is defined by the Bank as the risk of financial loss, or damage to the Bank's reputation, or both, resulting from one or more risk causes, as outlined below:

- Human factors: insufficient personnel, lack of requisite knowledge, skills or experience, inadequate training and development, inadequate supervision, loss of key personnel, inadequate succession planning, or lack of integrity or ethical standards.
- Failed or inadequate processes: a process is poorly designed or unsuitable, or is not properly documented, understood, implemented, followed or enforced.
- Failed or inadequate systems: a system is poorly designed, unsuitable or unavailable, or does not operate as intended.
- External events: the occurrence of an event having an adverse impact on the Bank but outside its control.

Operational risk includes legal risk, but excludes strategic risk.

The Bank's operational risk management framework, policies and procedures comprise the management and measurement of operational risk, including the determination of the relevant key parameters and inputs, business continuity planning and the monitoring of key risk indicators.

The Bank has established a procedure of immediate reporting for operational risk-related incidents. The Compliance and Operational Risk Unit develops action plans with the respective units and follows up on their implementation on a regular basis.

For the measurement of operational risk economic capital and operational risk-weighted assets, the Bank has adopted a VaR approach using a Monte Carlo simulation technique that is consistent with the advanced measurement approach proposed under the Basel II framework. In line with the assumptions of the Basel II framework, the quantification of operational risk does not take reputational risk into account. Internal and external loss data, scenario estimates and control self-assessments to reflect changes in the business and control environment of the Bank are key inputs in the calculations. In quantifying its operational risk, the Bank does not take potential protection it may obtain from insurance into account.

A. Economic capital for operational risk

Consistent with the parameters used in the calculation of economic capital for financial risk, the Bank measures economic capital for operational risk to the 99.995% confidence level assuming a one-year holding period. The table below shows the key figures of the Bank's exposure to operational risk in terms of economic capital utilisation over the past two financial years.

For the financial year	**2015**				2014			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for operational risk	1,200.0	1,200.0	1,200.0	**1,200.0**	1,075.0	1,200.0	700.0	1,200.0

B. Minimum capital requirements for operational risk

In line with the key parameters of the Basel II framework, the calculation of the minimum capital requirement for operational risk is determined assuming a 99.9% confidence level and a one-year time horizon. The table below shows the minimum capital requirements for operational risk and related risk-weighted assets.

As at 31 March	**2015**			2014		
SDR millions	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)
Operational risk, where (A) is derived as (B) / 8%	831.7	10,396.6	**831.7**	812.3	10,154.1	812.3

6. Liquidity risk

Liquidity risk arises when the Bank may not be able to meet expected or unexpected current or future cash flows and collateral needs without affecting its daily operations or its financial condition.

The Bank's currency and gold deposits, principally from central banks and international institutions, comprise 94% (2014: 94%) of its total liabilities. At 31 March 2015 currency and gold deposits originated from 166 depositors (2014: 175). Within these deposits, there are significant individual customer concentrations, with four customers each contributing in excess of 5% of the total on a settlement date basis (2014: five customers).

Outstanding balances in the currency and gold deposits from central banks, international organisations and other public institutions are the key drivers of the size of the Bank's balance sheet. The Bank is exposed to funding liquidity risk mainly because of the short-term nature of its deposits and because it undertakes to repurchase at fair value certain of its currency deposit instruments at one or two business days' notice. In line with the Bank's objective to maintain a high level of liquidity, it has developed a liquidity management framework, including a ratio, based on conservative assumptions for estimating the liquidity available and the liquidity required.

A. Maturity profile of cash flows

The following tables show the maturity profile of cash flows for assets and liabilities. The amounts disclosed are the undiscounted cash flows to which the Bank is committed. Options are included in the table at fair value and are shown in the "Up to 1 month" category.

As at 31 March 2015

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Over 10 years	Total
Assets									
Cash and sight accounts with banks	11,375.3	–	–	–	–	–	–	–	11,375.3
Gold and gold loans	12,639.9	827.5	–	691.0	–	–	–	–	14,158.4
Treasury bills	4,752.7	15,038.4	7,598.0	5,583.9	–	–	–	–	32,973.0
Securities purchased under resale agreements	28,140.9	13,535.3	517.0	–	–	–	–	–	42,193.2
Loans and advances	9,079.8	8,799.4	93.4	–	–	–	–	–	17,972.6
Government and other securities	3,312.7	4,593.7	12,261.5	21,397.8	12,860.2	25,582.6	2,020.7	–	82,029.2
Total assets	**69,301.3**	**42,794.3**	**20,469.9**	**27,672.7**	**12,860.2**	**25,582.6**	**2,020.7**	**–**	**200,701.7**
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(9,814.2)	(17,307.7)	(18,554.9)	(21,340.4)	(18,456.3)	(18,009.0)	(120.6)	–	(103,603.1)
Other currency deposits	(40,084.7)	(13,764.9)	(8,002.0)	(9,726.5)	–	–	–	–	(71,578.1)
Gold deposits	(9,857.3)	–	–	–	–	–	–	–	(9,857.3)
Securities sold under repurchase agreements	(773.3)	–	–	–	–	–	–	–	(773.3)
Total liabilities	**(60,529.5)**	**(31,072.6)**	**(26,556.9)**	**(31,066.9)**	**(18,456.3)**	**(18,009.0)**	**(120.6)**	**–**	**(185,811.8)**
Derivatives									
Net cash flows									
Options and interest rate contracts	4.8	63.8	85.4	93.6	87.3	(14.4)	(2.8)	–	317.7
Gross cash flows									
Interest rate contracts									
Inflows	80.1	44.7	0.5	352.8	108.1	–	–	–	586.2
Outflows	(65.1)	(40.5)	–	(323.1)	(97.7)	–	–	–	(526.4)
Subtotal	15.0	4.2	0.5	29.7	10.4	–	–	–	59.8
Currency and gold contracts									
Inflows	50,590.8	45,399.2	17,316.7	17,662.3	–	–	–	–	130,969.0
Outflows	(49,588.7)	(44,529.8)	(15,770.1)	(16,561.6)	–	–	–	–	(126,450.2)
Subtotal	1,002.1	869.4	1,546.6	1,100.7	–	–	–	–	4,518.8
Total derivatives	**1,021.9**	**937.4**	**1,632.5**	**1,224.0**	**97.7**	**(14.4)**	**(2.8)**	**–**	**4,896.3**
Total future undiscounted cash flows	**9,793.7**	**12,659.1**	**(4,454.5)**	**(2,170.2)**	**(5,498.4)**	**7,559.2**	**1,897.3**	**–**	**19,786.2**

As at 31 March 2014

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Total
Assets								
Cash and sight accounts with banks	11,211.5	–	–	–	–	–	–	11,211.5
Gold and gold loans	20,374.5	–	–	222.6	–	–	–	20,597.1
Treasury bills	10,075.7	22,334.5	7,135.5	4,400.3	323.6	–	–	44,269.6
Securities purchased under resale agreements	34,956.5	8,497.3	–	–	–	–	–	43,453.8
Loans and advances	9,645.7	9,955.7	–	–	–	–	–	19,601.4
Government and other securities	3,990.7	7,821.5	8,208.5	11,422.5	12,341.6	26,177.5	1,458.7	71,421.0
Total assets	90,254.6	48,609.0	15,344.0	16,045.4	12,665.2	26,177.5	1,458.7	210,554.4
Liabilities								
Currency deposits								
Deposit instruments repayable at 1–2 days' notice	(9,115.8)	(19,975.2)	(16,886.1)	(17,351.8)	(16,795.8)	(23,879.9)	(16.1)	(104,020.7)
Other currency deposits	(47,375.5)	(17,579.2)	(7,913.1)	(3,210.3)	–	–	–	(76,078.1)
Gold deposits	(11,077.0)	–	–	(221.1)	–	–	–	(11,298.1)
Securities sold under repurchase agreements	(669.5)	(249.9)	–	–	–	–	–	(919.4)
Total liabilities	(68,237.8)	(37,804.3)	(24,799.2)	(20,783.2)	(16,795.8)	(23,879.9)	(16.1)	(192,316.3)
Derivatives								
Net cash flows								
Options and interest rate contracts	1.6	71.0	102.8	117.3	105.6	(37.7)	(3.9)	356.7
Gross cash flows								
Interest rate contracts								
Inflows	32.6	0.2	186.1	282.9	400.1	25.5	–	927.4
Outflows	(36.8)	(1.8)	(214.0)	(331.5)	(458.9)	(28.6)	–	(1,071.6)
Subtotal	(4.2)	(1.6)	(27.9)	(48.6)	(58.8)	(3.1)	–	(144.2)
Currency and gold contracts								
Inflows	44,188.5	40,218.5	8,699.8	7,240.7	–	–	–	100,347.5
Outflows	(44,213.2)	(39,986.0)	(8,752.0)	(7,211.6)	–	–	–	(100,162.8)
Subtotal	(24.7)	232.5	(52.2)	29.1	–	–	–	184.7
Total derivatives	(27.3)	301.9	22.7	97.8	46.8	(40.8)	(3.9)	397.2
Total future undiscounted cash flows	21,989.5	11,106.6	(9,432.5)	(4,640.0)	(4,083.8)	2,256.8	1,438.7	18,635.3

The table below shows the contractual expiry date of the credit commitments as at the balance sheet date:

Contractual expiry date *SDR millions*	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Maturity undefined	Total
As at 31 March 2015	–	–	233.5	–	–	–	–	2,863.0	**3,096.5**
As at 31 March 2014	–	–	267.5	194.1	–	–	–	2,461.3	2,922.9

B. Liquidity ratio

The Bank has adopted a liquidity risk framework taking into account regulatory guidance issued by the Basel Committee on Banking Supervision related to the liquidity coverage ratio (LCR). The framework is based on a liquidity ratio that compares the Bank's available liquidity with a liquidity requirement over a one-month time horizon assuming a stress scenario. In line with the Basel III liquidity framework, the underlying stress scenario combines an idiosyncratic and a market crisis. However, the liquidity ratio differs in construction from the LCR to reflect the nature and scope of the BIS banking activities – in particular, the short-term nature of the Bank's balance sheet. Within the Bank's liquidity framework, the Board of Directors has set a limit for the Bank's liquidity ratio which requires the liquidity available to be at least 100% of the potential liquidity requirement.

The table below provides information on the development of the Bank's liquidity ratio for the last two years. For reference, the LCR as defined by the Basel Committee on Banking Supervision is also included.

For the financial year	**2015**				2014			
Percentages	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Liquidity ratio	162%	178%	145%	**153%**	154%	180%	137%	164%
LCR	386%	540%	263%	263%	251%	410%	178%	318%

Further information on the liquidity ratio is provided in the sections below.

Liquidity available

The liquidity available is determined as the cash inflow from financial instruments over a one-month horizon, along with potential additional liquidity which could be generated from the disposal of highly liquid securities, or by entering into sale and repurchase agreements for a part of the Bank's remaining unencumbered high-quality liquid securities. The assessment of this potential additional liquidity involves two steps. First, there is an assessment of the credit quality and market liquidity of the securities. Second, the process of converting the identified securities into cash is modelled by projecting the amount that could be reasonably collected.

Liquidity required

Consistent with the stress scenario, the Bank determines the liquidity required as the sum of the cash outflow from financial instruments over a one-month horizon, the estimated early withdrawal of currency deposits, and the estimated drawings of undrawn facilities. As regards the calculation of the liquidity needs related to currency deposits, it is assumed that all deposits that mature within the time horizon are not rolled-over and that a proportion of non-maturing currency deposits is withdrawn from the Bank prior to contractual maturity. At 31 March 2015, the estimated outflow of currency deposits in response to the stress scenario amounted to 41.3% (2014: 42.9%) of the total stock of currency deposits. Moreover, it is assumed that undrawn facilities committed by the Bank would be fully drawn by customers, along with a proportion of undrawn uncommitted facilities.

The table below shows the Bank's estimated liquidity available, liquidity required and the resulting liquidity ratio:

As at 31 March

SDR billions	**2015**	2014
Liquidity available		
Estimated cash inflows	55.8	70.5
Estimated liquidity from sales of highly liquid securities	56.2	56.9
Estimated sale and repurchase agreements	5.4	6.1
Total liquidity available (A)	**117.4**	133.5
Liquidity required		
Estimated withdrawal of currency deposits	71.7	76.1
Estimated drawings of facilities	4.9	4.3
Estimated other outflows	–	1.1
Total liquidity required (B)	**76.6**	81.5
Liquidity ratio (A) / (B)	**153%**	164%

Independent auditor's report

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

We have audited the accompanying financial statements of the Bank for International Settlements (pages 173–243), which comprise of the balance sheet as at 31 March 2015, the related profit and loss account, statement of comprehensive income, statement of cash flows and movements in the Bank's equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting principles described in the financial statements and the Statutes of the Bank. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is the express an option on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical responsibilities and plan and perform the audit to obtain reasonable assurances whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 March 2015 give a true and fair view of the financial position of the Bank for International Settlements and of its financial performance and its cash flows for the year then ended in accordance with the accounting principles described in the financial statements and the Statutes of the Bank.

Ernst & Young Ltd

Victor Veger | John Alton

Zurich, 15 May 2015