

The Bank for International Settlements and the Federal Reserve

Charles J. Siegman, Senior Associate Director of the Board's Division of International Finance, prepared this article.

On September 13, 1994, the Chairman of the Board of Governors of the Federal Reserve System assumed the seat on the Board of Directors of the Bank for International Settlements (BIS) designated for the central bank of the United States. The central bank of the United States has had the right to be represented on the BIS's Board of Directors since the BIS was established more than sixty years ago. For a variety of reasons, however, the Federal Reserve had, until this year, never exercised its right. The Federal Reserve Board's decision to assume representation on the BIS's Board was made in recognition of the increasingly important role of the BIS as the principal forum for consultation, cooperation, and information exchange among central bankers and in anticipation of a broadening of that role. Federal Reserve membership on the BIS Board marks a new chapter in the relationship of the Federal Reserve System with the BIS.

This article discusses the role of the BIS as an international monetary institution, summarizes the Federal Reserve's relationship with the BIS since that organization's founding, and provides background information on the organizational structure of the BIS and its financial operations.

THE BIS'S ROLE AS AN INTERNATIONAL MONETARY INSTITUTION

The Bank for International Settlements is an organization of central banks based in Basle, Switzerland. It was established in 1930, and thus is the oldest functioning international financial organization. The BIS was formed for the practical purpose of coordinating Germany's World War I reparations payments (hence the term "settlements" in

the organization's name). However, its primary objectives, which have guided the Bank's activities since its inception and are reflected in its current role, were to promote cooperation among central banks and to provide additional facilities for international financial operations.

Over time, the BIS has evolved into a major international institution, providing an important forum for frequent consultation among central bankers on a wide range of issues. In recent years the BIS has broadened its role by, for example, mobilizing supplementary resources for the International Monetary Fund (IMF) and arranging bridge financing for some heavily indebted middle-income developing countries and, more recently, for some Eastern European countries.¹ The BIS has also broadened its contacts with central banks outside Europe.

Since the early 1960s, the BIS has hosted, nine or ten times each year, meetings of central bank governors of the Group of Ten (G-10) countries, which provide a forum for ongoing discussion of issues of common interest.² The BIS is also the site of periodic and ad hoc meetings of central bank officials in the subsidiary committees of the G-10 central bank governors—the Basle Committee on Banking Supervision, the Committee on Payment and Settlement Systems (currently chaired by William J. McDonough, President of the Federal Reserve Bank of New York), the Euro-Currency Standing Committee, and the Gold and Foreign Exchange Committee.

The Basle Committee on Banking Supervision developed the international agreement on minimum capital standards for internationally active

1. The bridge financing consisted of short-term credits extended until credits became available from the IMF, the International Bank for Reconstruction and Development, and other sources.

2. The G-10 countries are Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States.

banks and continues to be the forum for designing a cooperative framework for supervision of international bank activities. Meetings of the Basle Committee are also attended by bank supervisors from G-10 countries who represent institutions other than the central banks. (Representing the United States, for example, are officials from the Comptroller of the Currency and the Federal Deposit Insurance Corporation as well as the Federal Reserve.)

The Committee on Payment and Settlement Systems has formulated principles and minimum standards for the operation and oversight of cross-border payment systems. Its ongoing efforts to find ways to reduce risk in payment systems are fundamental to international efforts to minimize the potential for systemic risk and to promote international financial stability.

The numerous studies on a wide range of international financial, banking, and payment system issues prepared by the subsidiary committees of the G-10 central banks provide comprehensive information for analyzing new developments and for addressing common financial, monetary, and supervisory issues facing central banks. For example, the Euro-Currency Standing Committee, which monitors and analyzes international financial markets in the context of concerns about systemic risk, has initiated a coordinated reporting system for international banking data and has conducted a series of studies of international interbank markets. Its most recent study of interbank relations, prepared by a working group chaired by a Federal Reserve staff member, is widely cited for having laid out for the first time some of the major international implications for central banks and market participants of the increased use of derivative instruments, and for having laid the foundation for subsequent discussions and studies of derivatives at national and international levels.

The BIS also organizes other specialized meetings of central bankers, such as periodic meetings of the Group of Computer Experts and the Group of Experts on Monetary and Economic Data Bank Questions, semiannual meetings of central bank economists and of coordinators of central bank technical assistance to Eastern Europe and the former Soviet Union, and periodic meetings of experts on monetary policy, money markets, and legal matters. These meetings enable central bank

officials to draw on each other's experiences with policy, operational, statistical, and technical issues.

The various meetings held under the auspices of the BIS have become increasingly important to central banks in carrying out their missions in an interdependent world. The information, understanding, and analyses acquired at these meetings and through the statistical activities carried out under BIS auspices contribute to more effective and more efficient policies. The BIS has become increasingly useful to central banks throughout the world as a forum for collecting information, sharing insights, developing analyses, and cooperating on a wide range of policy-related matters.

THE FEDERAL RESERVE'S RELATIONSHIP WITH THE BIS

The Federal Reserve over the years has played an active role in the meetings of the G-10 central bank governors and of that group's subsidiary committees and in the other specialized meetings of central bankers held at the BIS. Participation in the activities held under the auspices of the BIS has helped the Federal Reserve in the implementation of U.S. monetary policy and in carrying out its responsibilities for the supervision and stability of the U.S. banking and financial system in today's global financial markets.

Although the Federal Reserve has been an active and continuing participant in meetings on a wide range of central bank-related matters that are discussed and analyzed under the auspices of the BIS, until this September its relationship with the BIS had been unique. The United States was the only country whose central bank had the continuous right, under the statutes of the BIS, to be represented on the BIS's Board of Directors that had chosen not to do so.

The question of whether or not the Federal Reserve should join the BIS's Board of Directors dates back to 1929, when the BIS was being formed. At that time, and in the 1930s, it was concluded that because one of the principal functions of the BIS was to handle Germany's war reparations, and because the United States was not a party to the reparations settlement with Germany, it was not appropriate for the Federal Reserve to join the BIS Board.

The issue of Federal Reserve representation on the BIS's Board of Directors was left in abeyance during the World War II period. During the war there were moves, supported by the U.S. government, to liquidate the BIS, particularly because the new Bretton Woods institutions (the IMF and the International Bank for Reconstruction and Development) were viewed as the primary organizations for dealing with postwar international monetary affairs. After the war, the U.S. government reconsidered its position with regard to the BIS, acknowledging that the BIS was able to perform some functions that would be beneficial for the international monetary system that the new Bretton Woods institutions were not in a position to handle, for example, certain activities in connection with Marshall Plan aid to Western Europe.

During the 1950s and 1960s, the Federal Reserve Board considered the question of Federal Reserve representation on the BIS Board on several occasions. Although it was becoming more favorably inclined toward representation, it did not act, for several reasons. First, the Federal Reserve Board had lingering concerns that joining the BIS might be construed as an expression of preference for the BIS over the IMF. Second, it had reservations about the European character of the BIS. Third, there were concerns about the Federal Reserve becoming involved in the BIS's operations, especially in the gold market, a market that had important international economic policy implications at that time. The BIS's role in assisting South Africa in certain gold transactions was also a concern.

By the 1970s, the Federal Reserve Board had reached an informal consensus that the BIS had become a sufficiently important international monetary institution for the Federal Reserve to seek to be a full participant in its deliberations, and that representation on the BIS Board of Directors would enable the Federal Reserve to contribute to the evolution and policies of that organization. However, in the end, the consensus was not acted upon.

The question of Federal Reserve representation on the BIS Board was again considered in 1983–84 when, because of the BIS's increased role in international monetary affairs, the Congress requested the Secretaries of State and the Treasury and the Chairman of the Board of Governors of the Federal Reserve System to prepare a report for the Con-

gress on the matter. That report, submitted in 1984, concluded:

[We] see no urgent need to change the current relationship of the Federal Reserve with the BIS and the assumption by the Federal Reserve of the seat on the Board of Directors of the BIS that is reserved for the Governor of the central bank of the United States. In the absence of a strong case to change the current status of the United States relationship with the BIS, there are certain technical and policy reservations that militate against the Federal Reserve's becoming a member of the Board of Directors of the BIS. This matter obviously deserves to be reviewed periodically in light of evolving developments in the international monetary and financial system.

Previous technical and policy reservations about the Federal Reserve being represented on the BIS Board have substantially diminished in recent years.

For a number of years the BIS has been working cooperatively with, rather than as a competitor of, the IMF. For example, it has mobilized supplementary resources for the IMF and is working closely with the IMF in coordinating the technical assistance that is being provided by central banks to Eastern European countries and to the countries of the former Soviet Union.

With regard to the BIS's European orientation, in recent years the BIS has broadened its reach beyond Europe and has included representatives of central banks from Latin America and East Asia in some of its meetings. Also, to reflect its more global character, the BIS in July 1994 elected to its Board of Directors (effective September 13, 1994) the governors of the central banks of Canada and Japan; from 1945 until then, the Board had included only representatives of Western European central banks.

Ideological disagreements about the role of gold in the international monetary system have become muted since the early 1970s. Similarly, political concerns about South Africa's membership in the BIS and the BIS's assistance to South Africa in certain gold transactions have waned as the situation in that country has changed.

The end of the Cold War removed another reservation that the Federal Reserve had once had about being represented on the BIS Board and becoming involved in BIS's operations for central banks—namely, that the BIS was performing banking func-

tions for some countries that at that time were part of the Eastern bloc. In the Cold War environment, the United States at times expressed disapproval of such financial relationships with these countries. With the end of the Cold War, this factor is no longer relevant in considering whether the Federal Reserve should exercise its right to be represented on the BIS Board. In fact, Federal Reserve representation on the BIS Board is fully consistent with the integration of Eastern European countries (and, over time, the countries of the former Soviet Union) into the global economy. For example, the BIS organizes semiannual meetings of coordinators of central bank technical assistance to Eastern Europe and the former Soviet Union and serves as a clearinghouse for information on technical assistance related to central banking that is being provided to these countries.

Given these developments, the Federal Reserve Board concluded that its previous reservations about joining the BIS's Board of Directors were no longer as powerful, and that the positive benefits of being represented on the BIS Board in helping to achieve the Federal Reserve's objectives have been enhanced. The United States is an active member of other international and regional financial organizations, and its non-membership status on the BIS Board of Directors was becoming an increasingly questionable anomaly.³ By being represented on the BIS Board, the Federal Reserve will be able to play a more active role in shaping the future of the BIS and to further international monetary cooperation.

ORGANIZATIONAL STRUCTURE OF THE BIS

Membership and Shares

The BIS currently has thirty-three central banks as members (see box). The Reserve Bank of Aus-

Member Central Banks of the Bank for International Settlements

<i>Country</i>	<i>Central bank</i>
Australia	Reserve Bank of Australia
Austria	Austrian National Bank
Belgium	National Bank of Belgium
Bulgaria	Bulgarian National Bank
Canada	Bank of Canada
Czech Republic	Czech National Bank
Denmark	National Bank of Denmark
Estonia	Bank of Estonia
Finland	Bank of Finland
France	Bank of France
Germany	German Bundesbank
Greece	Bank of Greece
Hungary	National Bank of Hungary
Iceland	Central Bank of Iceland
Ireland	Central Bank of Ireland
Italy	Bank of Italy
Japan	Bank of Japan
Latvia	Bank of Latvia
Lithuania	Bank of Lithuania
Netherlands	The Netherlands Bank
Norway	Central Bank of Norway
Poland	National Bank of Poland
Portugal	Bank of Portugal
Romania	National Bank of Romania
Slovakia	National Bank of Slovakia
South Africa	South African Reserve Bank
Spain	Bank of Spain
Sweden	Bank of Sweden
Switzerland	Swiss National Bank
Turkey	Central Bank of the Republic of Turkey
United Kingdom	Bank of England
United States	Federal Reserve System
Yugoslavia ¹	National Bank of Yugoslavia

3. The United States is a founding member of the International Monetary Fund (IMF), the International Bank for Reconstruction and Development, the Organization for Economic Cooperation and Development (OECD), the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, and the European Bank for Reconstruction and Development. The Federal Reserve is a collaborating (associate) member of the Center for Latin American Studies (CEMLA), the Chairman of the Federal Reserve Board is the Alternate Governor of the IMF, and Federal Reserve officials participate actively in meetings of the OECD.

1. The membership of the central bank of Yugoslavia is currently suspended pending a final determination of the legal status of the Yugoslav issue of the BIS's capital.

tralia, the Bank of Canada, the Federal Reserve System, the Bank of Japan, and the South African Reserve Bank are the only non-European central banks that are members. The membership includes most of the Eastern European countries (except Albania and the countries that have emerged from the former Yugoslavia⁴). The three Baltic states resumed their membership in June 1992. Russia and the other former Soviet republics have never been members.

Some 84 percent of the 473,125 shares of the BIS currently outstanding are owned by central banks; the remainder are held by private shareholders, mainly in Europe. The shares owned by private shareholders consist of the shares originally issued as part of the U.S. issue in 1930 that were not subscribed by the U.S. central bank and a portion of the original issue for Belgium and France to which the National Bank of Belgium and the Bank of France did not subscribe. Because the central bank of the United States decided not to subscribe to its share of the original capital subscription of the BIS, a United States banking group (composed of J.P. Morgan and Company, the First National Bank of New York, and the First National Bank of Chicago) subscribed or arranged for the subscription of these shares. Since that time, these "American" shares have been sold to other parties, mostly European.

The BIS declares an annual dividend, and all shares carry equal rights with regard to such dividends. However, the ownership of shares carries no right of voting or representation at annual general meetings and extraordinary general meetings of the BIS. The right of representation and voting, in proportion to the number of shares subscribed in each country, can be exercised only by the central bank of that country or its nominee; if the central bank does not nominate an institution, the BIS may designate a financial institution not objected to by the central bank of the country in question. Thus, in the past, whenever a general or extraordinary general meeting of the BIS was held, the BIS Board of Directors appointed Citibank N.A. of New York to exercise the right of voting all the "American" shares resulting from the original U.S. issue in

1930. In practice, Citibank exercised these voting rights by appointing the president or the general manager of the BIS to act as its proxy.

When the Federal Reserve assumed its ex officio seat on the BIS Board of Directors in September 1994, it was not required to make a financial outlay by purchasing shares of the BIS. However, starting with the annual general meeting in June 1995, the Federal Reserve will be entitled to vote the shares issued as part of the U.S. issue.

Board of Directors

According to current BIS statutes, the governors of the central banks of Belgium, France, Germany, Italy, the United Kingdom, and the United States are ex officio members of the BIS Board of Directors. Ex officio directors serve as long as they remain governors of their central banks. Following the Federal Reserve Board's decision to be represented on the BIS's Board, Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System, assumed the ex officio seat for the United States on September 13, 1994.

BIS statutes also empower each ex officio director to appoint to the BIS Board of Directors another person of the same nationality, representing finance, industry, or commerce. Most of the current appointed members of the BIS Board are former officials of their respective country's central bank now serving as private citizens (four are former heads of their central banks). Appointed directors hold office for three years and are eligible for reappointment. Federal Reserve Board Chairman Alan Greenspan named William J. McDonough, President of the Federal Reserve Bank of New York, as the appointed director for the United States.

In addition to the six ex officio directors and the six directors appointed by the ex officio directors, BIS statutes provide for the election, by a two-thirds majority of the BIS Board members, of as many as nine directors from among the governors of the central banks of the countries that have subscribed to shares of the BIS, excluding the six central banks that are entitled to designate ex officio directors. Elected directors serve for three years and are eligible for reelection. The current members of the BIS Board of Directors are listed in the box.

4. The State Bank of Albania was a member for many years but withdrew its membership in 1977. The membership of the central bank of Yugoslavia is currently suspended pending a final determination of the legal status of the Yugoslav issue of the BIS's capital.

Board of Directors of the Bank for International Settlements, September 1994

<i>Member</i>	<i>Basis of membership</i>
Willem F. Duisenberg President, The Netherlands Bank <i>Chairman, Board of Directors of the BIS, and President of the BIS</i>	Elected
Carlo Azeglio Ciampi Former governor, Bank of Italy <i>Vice Chairman, Board of Directors of the BIS</i>	Appointed
Urban Backstrom Governor, Bank of Sweden	Elected
Bernard Clappier Former governor, Bank of France	Appointed
Antonio Fazio Governor, Bank of Italy	Ex officio
Edward A. J. George Governor, Bank of England	Ex officio
Alan Greenspan Chairman, Board of Governors of the Federal Reserve System	Ex officio
Lord Kingsdown [formerly Robin Leigh-Pemberton] Former governor, Bank of England	Appointed
Markus Lusser President, Swiss National Bank	Elected
William J. McDonough President, Federal Reserve Bank of New York	Appointed
Yasushi Mieno Governor, Bank of Japan	Elected
Helmut Schlesinger Former president, German Bundesbank	Appointed
Jean-Claude Trichet Governor, Bank of France	Ex officio
Hans Tietmeyer President, German Bundesbank	Ex officio
Gordon Thiessen Governor, Bank of Canada	Elected
Alfons Verplaetse Governor, National Bank of Belgium	Ex officio
Philippe Wilmes Member of the board of regents, National Bank of Belgium	Appointed

Financial Operations

As an international financial organization, the BIS performs a variety of banking, trustee, and agent functions, mainly for central banks and international organizations. The BIS accepts deposits of currencies and gold, primarily from central banks; in June 1994, about one hundred central banks held deposits at the BIS. In turn, the BIS places its assets in the money markets and on occasion makes loans to central banks. The BIS has performed the functions of trustee with regard to the outstanding indebtedness associated with the German post-World War I reparations agreements. It has also served as the depository for the secured loans of the European Coal and Steel Community and has exercised the functions of agent for the European Monetary Cooperation Fund. More recently, the BIS has become the agent for the collateral arrangements in connection with the Brazilian commercial bank debt restructuring and is acting as a sub-agent for the Federal Reserve Bank of New York in connection with the collateralized Venezuelan Brady bonds.

Before any financial operation in a given market or given currency is carried out by or on behalf of the BIS, the BIS Board must give the central bank or central banks directly concerned an opportunity to disapprove, in order to avoid disrupting national financial markets. If a central bank objects, the proposed operation does not take place.

Information about the banking functions performed by the BIS is included in the BIS's annual report, in the chapter that reviews the operations of the BIS's Banking Department. The following data provide some salient points concerning the financial operations of the BIS:

- As of March 31, 1994, the BIS's balance-sheet total stood at 65 billion gold francs, with the BIS's own funds (capital and reserves) at 1.8 billion gold francs.⁵ The equivalents in U.S. dollars, with gold at the then-current market price, were \$134 billion and \$4.5 billion respectively.

5. The BIS uses the gold franc (equivalent to 0.29 gram of fine gold) as a unit of account for balance-sheet purposes. Assets and liabilities in U.S. dollars are converted at \$208 per ounce of fine gold (equivalent to 1 gold franc = \$1.94); all other items in currencies are converted into gold francs on the basis of market rates against the U.S. dollar.

- The preponderant share of deposits of currencies placed at the disposal of the BIS is derived from deposits of central banks. The proportion of central bank deposits of currencies to total deposits of currencies, always high, has increased over recent years and stood at 96 percent on March 31, 1994. The other 4 percent were mainly currency deposits by international institutions, with a minuscule amount from commercial banks.

- The proportion of central bank deposits of gold in relation to total deposits (gold and curren-

cies) has declined steadily over time and amounted to nearly 7 percent at the end of March 1994, compared with 22 percent at the end of March 1984.

- For the financial year 1993–94, the BIS reported a profit of \$268 million equivalent; of that amount, nearly \$80 million equivalent was distributed as dividends, and the remainder was placed in various reserve funds. On March 31, 1994, total reserves of the BIS amounted to \$3.4 billion equivalent. □