

A bank for central banks

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The banking business of the BIS attracts little public attention, although it remains the source of its income and of its independence. The bank accepts deposits from central banks and international organisations in the major currencies and in gold, invests these funds in money market instruments and government securities, and offers its customers a range of tailored investment products. These include short-term deposits, tradable instruments such as the Fixed-Rate Investments at the BIS (FIXBIS) and Medium-Term Instruments (MTIs), foreign exchange and gold transactions and the management of portfolios on behalf of central banks. The BIS also provides short-term credit to central banks, usually on a collateralised basis, and has occasionally acted as agent or trustee for international loans and financial arrangements.¹

The scale of these operations is considerable. According to its recent annual reports, the BIS manages currency deposits from central banks amounting to several hundred billion SDR, which corresponds to a small but significant share of world foreign exchange reserves. Its balance sheet total has grown accordingly, and its profits, after the allocation to reserves, allow it to pay an annual dividend to its member central banks. Managing its risks conservatively, the bank reports its capital ratios and liquidity ratios in its financial statements in a form comparable to the disclosures of a commercial bank under the Basel framework.²

Gold has played a special role in the history of the BIS from its first year. The bank holds gold for its own account and for its customers and acts as a counterparty for gold transactions among central banks, including gold swaps. Its gold operations were at the centre of the controversies of the war years examined in Part D. In the 1960s the BIS was closely involved in the operations of the London gold pool. Today it continues to provide gold services to central banks that wish to manage their gold reserves without dealing with commercial counterparties. In 2010 the bank attracted public

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attention when its annual report revealed large gold swap operations with commercial banks, which some observers interpreted as a sign of liquidity stress in the banking system.³

Why do central banks entrust part of their reserves to the BIS? Three reasons stand out. The immunity of the bank's assets under the Headquarters Agreement protects the reserves against attachment by private creditors. The BIS offers the convenience of a counterparty that understands the needs of central banks, including the need for discretion and for liquidity in a crisis. The credit standing of the bank is very high, since its capital is large in relation to its risk exposures and its shareholders are central banks. For smaller central banks without extensive reserve management capacities, the BIS also offers pooled investment vehicles and advice, among them the BIS Investment Pools and the Asian Bond Funds created with the central banks of the East Asia and Pacific region in 2003 and 2005.⁴

1 Notes

1. On the banking services of the BIS, including FIXBIS, MTIs, gold services and asset management, see the BIS Annual Report, section on banking activities, and the descriptions of banking services on the BIS website. Product names to be verified. ↩
2. On the size of currency deposits, the balance sheet total, net profit and dividend, see the financial statements in the latest BIS Annual Report (financial year ending 31 March). Figures to be verified. ↩
3. On the gold activities of the BIS and the gold swaps reported in the BIS Annual Report 2009/10, see the BIS Annual Report of that year and the press coverage at the time. Details to be verified. ↩
4. On the reasons for central banks to hold reserves at the BIS, see the BIS Annual Report, banking activities section; on the BIS Investment Pools and the Asian Bond Fund initiatives of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), see the BIS and EMEAP publications. To be verified. ↩

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