



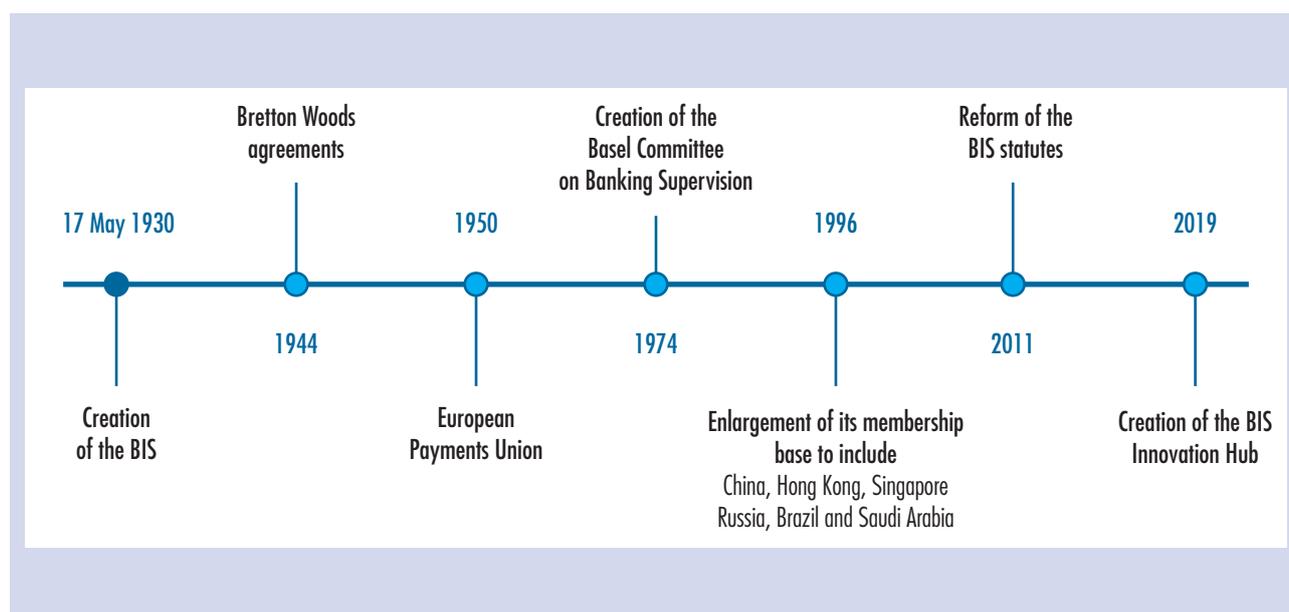
# Lessons from the 90<sup>th</sup> Anniversary of the Bank for International Settlements

## How to remain central in a changing environment

A bold creation and the first international financial institution, the Bank for International Settlements (BIS) was originally responsible for settling financial disputes arising from World War I. It managed to survive its outdated initial mission, thereby providing a number of lessons for the international financial community. Through far-reaching changes in its missions as well as its governance and shareholding structure, it has adapted to the world's economic, financial, technological and geopolitical developments, and today occupies an important and unique place in the international financial architecture, alongside political authorities. On the occasion of its 90<sup>th</sup> anniversary, it is interesting to look back over its history, which reflects world economic history, and the issues and challenges it faces today, from the economic response to the Covid-19 pandemic to the development of public policies addressing the major climate, technological, digital, monetary and financial issues of tomorrow's world.

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**N**inety years ago, on 17 May 1930, the Bank for International Settlements (BIS), the first international financial institution responsible for settling financial disputes arising from World War I, was founded in Basel. While the institution has evolved, both in its missions and its governance, in line with economic, financial, technological and geopolitical changes in the world, its permanence and the place it now occupies in the international financial architecture provide useful lessons for the international community. How has it managed to remain a key player in a changing environment and to establish its own legitimacy in the coordination of public policies in the monetary and financial spheres?

### 1 A bold creation

The BIS is first and foremost a pioneer. While the Bretton Woods agreements of 1944 are commonly remembered as the foundation of institutionalised economic multilateralism, the BIS not only predates them by more than a decade, but was also established in the early 1930s in the aftermath of both World War I and the stock market crash of October 1929. Paradoxically, it was in a period often marked by protectionist, or even nationalistic tendencies, and hardly conducive to multilateralism, that a new international economic cooperation was embodied in the Basel institution. Established to facilitate the payment of international war reparations, it was created by the central bankers of the victorious and defeated countries, at the behest of their governments, which were the respective creditors and debtors of the large war debt agreed under the Treaty of Versailles. From the outset, it has differed from other international institutions, such as the League of Nations, in terms of its legal status, i.e. a joint-stock company whose shareholders are central banks as well as – until 2001 – private individuals, and in terms of its operational and financial independence, since the Bank is not linked to political power and covers its expenses alone by generating profits from portfolio management activities. For instance, as at 31 March 2019, the BIS was managing more than 291 billion in assets denominated in Special Drawing Rights (SDRs) on behalf of third parties and for its own account (see extract below from the *BIS Annual Report 2018/2019*).

### 2 After World War II, the very existence of the BIS was threatened

At the end of World War II, after fifteen years of operation, a third of which during a conflict that did not interrupt the meetings between central bankers, including and above all from the warring powers, the issue of the future of the BIS was called into question. Indeed, the mission assigned to the institution when it was created had lost much of its relevance in the wake of the Great Depression and the abolition of the reparations mechanism in 1932, against the backdrop of German hyperinflation. The BIS then adapted by shifting its role to technical cooperation between central banks and the organisation of discussion meetings between central bankers, a role that it still plays to a large extent today.

Yet while the Bretton Woods conference was underway, Americans and Europeans were at odds over the future of the BIS. The former believed that the newly-created international institutions, such as the International Monetary Fund (IMF) or the World Bank, the purpose of which was to promote multilateral cooperation, could replace the BIS, which was deemed to have become superfluous. Europeans, however, defended the existence of the Basel institution, useful for holding a group of central bankers. Behind these debates lie more sensitive issues such as the role of the BIS during World War II and in particular the relationship it continued to maintain with the Reichsbank despite (or because of?) its neutrality. An opaque debate on transparency and accountability also emerged and took hold many years later. As an institution hosting a closed club of experts in a private setting, the BIS irritated the US Congress, particularly since it considered that the Bank's financial operations could compete with those of the IMF. This American mistrust, which is not new, had institutional consequences: from before the war, the Federal Reserve was not a shareholder of the BIS, like other Western central banks. Wealthy US individuals were shareholders instead of it. US interests were therefore often defended in Basel by representatives of private commercial banks.

Initially, in the debate that pitted central banks against administrations, the latter were victorious: a resolution



### BIS portfolios in March 2018 and 2019

The BIS's portfolios are organised as follows:

#### Own funds



The Bank invests most of its shareholders' equity in fixed income portfolios

#### Own gold



The remainder of the Bank's shareholders' equity is invested in gold and gold loans

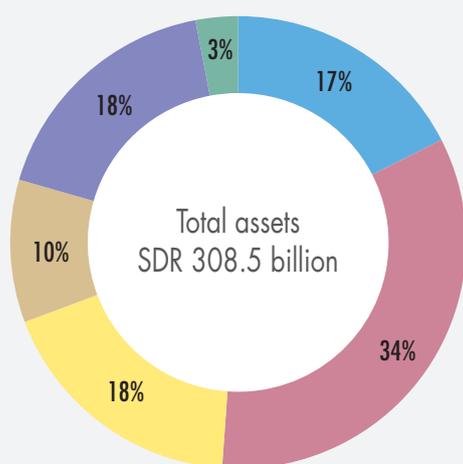
#### Borrowed funds



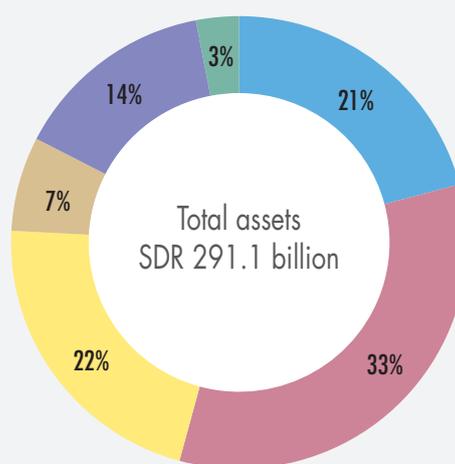
The BIS takes currency and gold deposits from central banks and invests the proceeds, earning a margin

### Balance sheet asset composition

31 March 2020



31 March 2019



Source: BIS Annual Report 2019-2020.



in 1944 called for the immediate dissolution of the BIS. But following numerous discussions between central bankers, BIS officials and representatives of the US Treasury, and a clarification of the future role of the Bank and its relationship with the Bretton Woods institutions, the survival of the BIS, which had proved its ability to create a climate conducive to fruitful discussions between central bankers, was, in 1948, assured. It was entrusted with new missions, such as acting as agent for the European Payments Union created in 1950 to restore the convertibility of European currencies. It then played a major role in European monetary cooperation, notably by hosting meetings of the Committee of European Governors. It thus served as a launch pad for the euro by promoting European monetary cooperation and the functioning of the “Currency Snake” and later the European Monetary System (EMS).

### 3 Faced with new challenges, the BIS has adapted its missions

Since its inception, the BIS’s missions have changed significantly. Its original role of implementing the provisions of the Treaty of Versailles relating to the payment of reparations owed by Germany after World War I is no longer relevant. The economic, financial and monetary environment has changed. In ninety years, liberalised trade and financial flows have exploded. Asia and Latin America have become major economic players, and the euro area was created, in a context marked by the advent of multilateralism which, until recently, remained undisputed.

Against this backdrop, the BIS considerably broadened the scope of its missions, adapting them to the economic and monetary context. It has become an important multilateral player; the euro was thus born in Basel as much as in Brussels or Frankfurt. The BIS now plays a unique role in the development of international banking and insurance standards. In the realm of theory, it strives to break new ground in areas still relatively unexplored or to develop innovative positions. Lastly, it has become the “bank for central banks” by offering them a customer service, particularly in the area of foreign exchange reserve management.

With the creation in 1974 of the Basel Committee on Banking Supervision (BCBS), established by the G10 in response to the financial and banking turmoil, and in 1980 of the committee that was to become the Committee on Payments and Market Infrastructures (CPMI), the BIS hosts and provides the secretariat for two bodies with significant regulatory powers in the field of banking and payments. Accordingly, it was within the Basel Committee that the so-called Basel I, Basel II and Basel III agreements were negotiated. Among other things, they define the minimum capital requirements for banks and are binding far beyond the realm of Basel. The BIS also provides the secretariat for the Financial Stability Board (FSB), which is mandated by the G20 to strengthen cooperation between public authorities and supervisors to promote financial stability.

In the 1980s-1990s, the emergence of the Latin American debt crisis led the IMF to implement ambitious programmes with exceptional financing. However, the situation proved so urgent that the BIS was called upon to grant bridging loans to countries in crisis pending the release of IMF financing, first to Mexico and then to other countries in serious difficulty. The BIS thus became a major player in the resolution of debt crises. Recently, it intervened in the Argentinian sovereign crisis, by granting a USD 2 billion credit line to its central bank in May 2018.

Finally, the BIS is often at the forefront of thinking on new topics. To do so, it draws on a high-level economic and monetary department, the studies of which are closely followed by economists, central bankers, public treasury officials and private asset managers alike. For example, in March 2018, a working group set up by the CPMI and the Markets Committee drew up a report on central bank digital currencies that served as a basis for the report of the working group chaired by Benoît Coeuré on stablecoins and the Libra. It was submitted to the G7 ministers and governors in October 2019. Similarly, recognising the impact of technological innovations on the activities of central banks, the BIS established an Innovation Hub in 2019, first regionally in Asia, then internationally in Europe, to better understand and regulate a financial sector undergoing rapid technological transformation. In 2020, together with the Banque de France, it produced a



strategic report, “The Green Swan”, on the impact of global warming for central banks and regulators or supervisors. Its flagship publication, the *BIS Annual Economic Report*, which analyses the major developments and outlook for the global economy as well as the impact of some of the most recent technological changes, is downloaded and read by tens of thousands of users (see extract below from the *BIS 2019/2020 Annual Report*).

#### 4 The representativeness and legitimacy of the BIS were bolstered by geographical enlargements

The BIS’s new operational legitimacy, with the continuous adaptation of its missions to the most recent challenges of international monetary and financial cooperation, has been accompanied by enhanced institutional and geographical representativeness. For instance, the BIS put a permanent end to private shareholdings in 2001, by buying back shares, following a process that began in 1994, when the US Federal Reserve finally purchased its shares, thus becoming a full member of the BIS. How could we fail to see this as a signal to the world that the BIS had become a key player in international monetary and financial stability, and therefore a forum in which the United States needed to have an institutional presence? Above all, the BIS largely opened up to non-Western emerging countries with the Chinese, Indian, Hong Kong, Singaporean, Russian, Brazilian and Saudi memberships in 1996, thus passing from the status of a Western club to that of a global institution, without ever compromising the collegiate spirit that characterises

its meetings. This process is still continuing today, with the membership of the central banks of Vietnam, Morocco and Kuwait effective in 2020. While BIS member countries<sup>1</sup> or groups of countries – now 63 including Vietnam’s recent membership – numerically only represent one-third of the base of institutions such as the IMF (which counts 189 member countries), they alone are equivalent to almost all of the world’s GDP and financial sector, in line with the BIS’ missions.

Ultimately, although the BIS has not become the “central bank of central banks” as it is informally known, since it does not conduct – and is not intended to conduct – monetary policy, it remains a reference bank for central banks. Above all, it has become a major player in international monetary and financial cooperation and research in these fields. Whether it be through analysing the drivers of crises, establishing banking solvency ratios, studying regulatory policy responses to the technological innovations that are revolutionising financial services, conducting work on green finance, blockchain or central bank digital currencies, or granting loans to heavily indebted countries, while seeking to coordinate responses to crises, it provides useful and innovative, albeit little-known, services to the global economy. This is an important achievement, even if the issues and challenges persist. Yet it is equally important, at a time when the economic repercussions of a major pandemic necessitate concerted responses to the temptation of uncooperative behaviour, to recall that economic multilateralism can also be achieved outside the political sphere, in institutions consisting of technicians who are just as committed to adaptability as to defending the common good.

<sup>1</sup> The Eurosystem is represented at the BIS by both the European Central Bank (ECB) and the national central banks of the States that have adopted the euro, which are all BIS shareholders.



### The BIS in figures for the financial year 2019/2020

#### FINANCIALS



**140 clients**

with placements at the BIS

**Customer asset management holdings**

(SDR, market value)

**20.2 billion**

**Total deposits (SDR)**

**250.2 billion in currency**

**15.2 billion in gold**

**Net profit (SDR)**

**165.5 million**

**Total comprehensive income (SDR)**

**1,602.8 million**

**Operating expense (SDR)**

**340.8 million**

**Bank capital (SDR)**

**21.6 billion**

**Balance sheet (SDR)**

**308.5 billion**

#### ANNUAL RECRUITMENT

**128** staff members (internal and external)

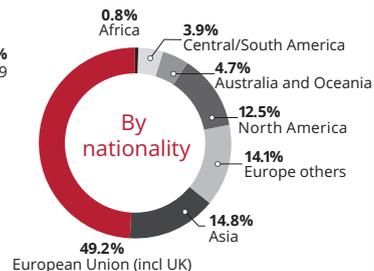
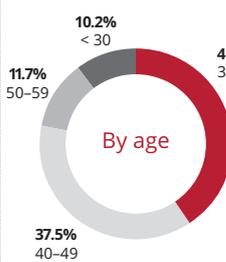
**13** Graduate Programme

**34** secondees and fellows



**45%** female

**55%** male



#### HIGH-LEVEL HOSTED MEETINGS

**148 in Basel**

6,920 participants



**69 hosted globally**

2,692 participants

#### RESEARCH

Research seminars and meetings

**126 speakers**

31 internal, 95 external



Flagship publications

Annual Report

**20,000** downloads



Annual Economic Report

**31,000** downloads

Quarterly Review **46,000** downloads

Visiting economic researchers

**17** Technical Advisers

**11** BIS Research Fellows

**16** Central Bank Research Fellows



**1** Lamfalussy Fellow

**4** Graduate Programme

**6** PhD Fellowship Programme

#### BIS GLOBAL PRESENCE 2019/20



**3 dealing rooms**  
Mexico City, Basel and Hong Kong SAR

**3 Innovation Hub Centres**  
Basel, Singapore and Hong Kong SAR

**2 Representative Offices**  
Mexico City and Hong Kong SAR

Source: BIS Annual Report 2019-2020.



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