Other central bank functions

1 Investment of assets

1.1 Fundamentals

Nature and purpose of the National Bank's assets

The National Bank's assets essentially consist of gold and foreign currency reserves as well as domestic financial assets (domestic securities and claims from repo transactions). They represent a part of Switzerland's national wealth and perform important monetary policy functions. Their composition is determined mainly by the established monetary order and the requirements of monetary policy.

Assets for monetary policy

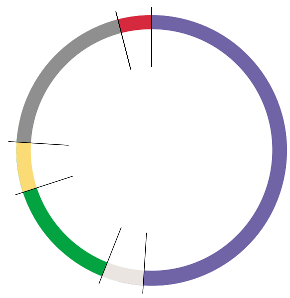
Part of the National Bank's assets serve directly for implementing monetary policy. In order to supply the economy with base money, the National Bank concludes securities transactions and foreign exchange transactions, in particular repurchase agreements (repos) and foreign exchange swaps. A repo represents a money market credit hedged by securities (claims from repo transactions). Foreign exchange swaps constitute currency reserves, which are hedged in the forward market.

The role of unhedged foreign exchange reserves and gold holdings

Unhedged foreign exchange reserves are held mainly in major currencies. They represent an instrument that permits the National Bank to intervene in the market in the event of a Swiss franc weakness. The National Bank can sell unhedged foreign exchange reserves at any time against Swiss francs in order to support the external value of the currency. Its gold holdings help to ensure that Switzerland remains able to pay vis-à-vis foreign countries in emergencies.

Leeway for investing the National Bank's international reserves

The National Bank Law specifies both the types of assets which the National Bank may acquire as well as the instruments it may employ for their management. Furthermore, it makes it possible to employ a part of the gold reserves for gold lending. Within the framework of legal provisions and in line with the monetary policy mandate, it is the National Bank's endeavour to manage its assets as profitably as possible.



Structure of National Bank assets
in percent

Unhedged foreign exch. reserves 51

Foreign exchange swaps 5

Gold 14

Other domestic assets 6

Domestic financial assets 20

Other foreign currency assets 4

Total: Sfr 89 billion.
Balance sheet values, ann. avarage

1.2 Foreign exchange investments

Investment principles

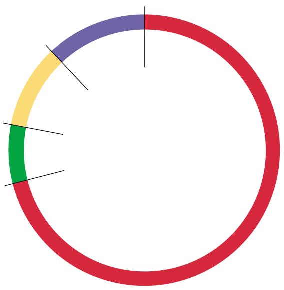
The National Bank invests its foreign exchange reserves in safe and liquid securities, and a small proportion in time deposits at prime foreign banks. This enables it, in case of need, to sell the investments at short notice and without incurring undue losses. The National Bank Law permits liquid marketable debt certificates of foreign governments, international organisations and foreign banks to be acquired.

Three-tier decision-making process concerning investments

The Governing Board issues investment policy guidelines in conformity with which the investment committee determines the detailed currency allocation and the permissible interest rate risk. The portfolio managers are guided by the reference portfolios for each individual currency. The yardstick for success of the asset management is the yield achieved on this reference portfolio.

Investment activity and results

The beginning of 1999 was marked by the launch of the euro, which went smoothly. The D-mark and Dutch guilder portfolios were merged into a euro portfolio. At the same time, the spectrum of permissible investments was expanded to include all the countries participating in stage three of the Monetary Union. Since May, the National Bank has also invested in bonds denominated in Canadian dollars. Within the currency portfolio, the US dollar and Japanese yen share were reduced in favour of euro-denominated investments. During the period under review, the diversification of borrowers continued to increase; the proportion of mortgage bonds within the euro portfolio, for example, was built up considerably. At the end of 1999, approximately 78 % of all investments were accounted for by government securities or by securities with virtual government guarantee. In addition to futures, the National Bank also used interest rate swaps for regulating the average duration of portfolios. On the whole, the yield on foreign exchange investments amounted to 9.7 % compared with 5.9 % in the previous year.



Foreign exchange reserves by debtor category
in percent

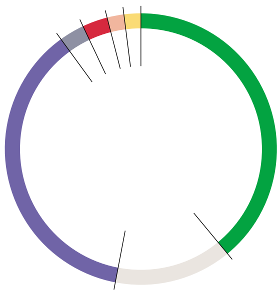
Government securities 71

Securities with indirect government guarantee 7

International organisations 10

Banks 12

Total: Sfr 54.6 billion.
End 1999



Foreign exchange reserves by currency
in percent

US dollar 39

US dollar hedged 14

Euro 37

Pound sterling 3

Danish krone 3

Yen 2

CA dollar 2

Total: Sfr 54.6 billion.
End 1999

Annual results foreign exchange investments Yields in percent

Currency portfolio	1997 Local currency	1997 Swiss francs	1998 Local currency	1998 Swiss francs	1999 Local currency	1999 Swiss francs
US dollars	5.8	14.0	7.8	2.1	0.8	16.9
Euros	–	–	–	–	−0.2	−0.0
D-marks	3.2	3.5	7.4	8.6	–	–
Dutch guilders	–	–	8.4	9.6	–	–
Yen	0.2	3.4	0.5	8.7	2.5	32.5
Pounds sterling[1]	–	–	9.6	3.9	1.1	14.4
Danish kroner[2]	–	–	4.8	3.7	0.8	0.9
Canadian dollars[3]	–	–	–	–	1.1	7.6
Total foreign exchange investments	–	10.9	–	5.9	–	9.7

1 since March 1998

2 since June 1998

3 since May 1999

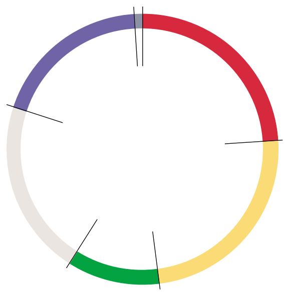
External asset managers

Up to now, a small portion of the foreign exchange portfolio was managed by an external management company. At the end of 1999, the National Bank outsourced additional mandates to external asset managers to start managing portfolios in the spring of 2000. This move allows the National Bank to take advantage of special investment opportunities, e.g. mortgage-backed securities in the US or international bond portfolios.

1.3 Investment in Swiss franc denominated securities

Investment principles

Since the early 1980s, the National Bank has been expanding its portfolio of domestic bonds by approximately Sfr 100 million annually. Purchases are spread evenly over the year. It manages its bond holdings subject to the condition that the investment decisions may neither disrupt monetary policy nor profit from it. The National Bank therefore pursues an investment policy bound by rules and checks its quality based on comparative indices.



Swiss franc securities by debtor category
in percent

Confederation 24

Cantons 24

Communes 11

Mortgage bonds 21

Banks 19

Foreign borrowers 1

Total: Sfr 4.9 billion.
End 1999

Expansion of bond purchases to include foreign debtors

The National Bank has thus far limited itself to the acquisition of Swiss franc bonds of domestic borrowers and considered all debtor categories permitted by law: the public sector, banks and mortgage bond companies. The proportions of the different debtor categories approximately corresponded to their market capitalisation; a concentration on individual debtors was avoided by means of limits. In July 1999, the National Bank began to purchase – on a modest scale – Swiss franc bonds of foreign debtors, i.e. foreign countries, international organisations and banks.

Investment results

At the end of 1999, the market value of the portfolio amounted to Sfr 4,885 million, compared to Sfr 5,010 million in the previous year. The duration was around 2¾ years. As a result of current interest rates, the yield on the portfolio fell from 4.8% in the previous year to 0.7% in 1999.

1.4 Gold lending

Investment principles

The market for gold lending is a relatively tight one. In order not to disrupt the price structure, the National Bank only uses a modest proportion of its gold holdings for lending. Its partners are first-class domestic and foreign banks and securities houses. They pay interest for the temporary loan of gold.

Gold lending against securities collateral

In mid-1999, the National Bank also began to conclude gold lending transactions with the counterparty depositing securities as collateral. By employing such transactions, the credit risk can be lowered considerably, while keeping loan interest low. This type of collateral makes sense especially for long-term transactions. At the end of 1999, a proportion of 23% of all gold lending was backed by securities collateral.

Gold lending frozen

On 26 September, within the framework of an agreement to set a limit on future gold sales, the National Bank and 14 other European central banks pledged to cap at current levels the amount of gold being leased out (cf. p. 45). At that time, the amount of gold lent by the National Bank was 328 tonnes.

Investment results

At the end of the year, the average residual maturity of all gold lending transactions concluded amounted to 7¼ months. In 1999, a yield of 1.6% p.a. was achieved with gold lending.

1.5 Risk management

Purpose of risk management

The purpose of the National Bank's risk management is the systematic and comprehensive compilation, limitation and control of all relevant financial risks which the National Bank is exposed to by virtue of its activities on the financial and capital markets. Risk management focuses on those National Bank assets that are managed with a view to achieving a profit, notably foreign exchange reserves. The market risks, i.e. currency and interest-rate risks from foreign exchange investments, are especially significant for the National Bank. Within the scope of its investment and monetary policy, it also takes certain credit risks.

Market risks

The National Bank controls market risks associated with foreign exchange investments with standard procedures and modern tools such as sensitivity and scenario analyses and value-at-risk calculations. Risk control is performed by means of limits and detailed investment guidelines. The latter spell out, among other things, the bands for the currency proportions, duration as also the upper limits for certain investment segments. In 1999, the currency risk from foreign exchange investments continued to be reduced by the reallocation of dollar and yen reserves into the euro. Interest-rate risk remained on last year's level.

Credit risks

Credit risk management is carried out in accordance with strictly determined rules for the allocation and control of credit limits. The bank authorities define strategic guidelines in the form of sector limits and requirements regarding the financial standing of debtors, and they set upper limits for individual credit lines. A newly appointed risk committee translates these guidelines into concrete allocations for the individual business types and is responsible for the control process.

Direct risk reporting

The risk management reports the results of risk control directly to the responsible line and supervisory bodies of the National Bank. Overall supervision lies with the bank authorities with a two-person delegation from the Bank Committee assuming special responsibility for risk control.

2 Payment transactions

2.1 Basis

Overview

In Switzerland, payment transactions are handled primarily by the National Bank, the commercial banks and the postal service (Swiss Post). The National Bank supplies the economy (by way of the banks and Swiss Post) with cash. It also acts as a settlements centre for cashless payments between the banks and between Swiss Post and the banks.

New cash distribution concept as a result of the developments relating to cash transactions

The companies with which the National Bank does business (such as commercial banks, Swiss Post and security transport companies) have been undergoing a rationalisation process of their cash handling processes for several years now. Especially commercial banks with networks of branches are increasingly clearing cash positions within their own organisations. Various bank mergers have reinforced this trend. Furthermore, banks and Swiss Post are tending to outsource more and more cash handling tasks to specialised companies. This trend has led to flows of cash within the National Bank's network of branches converging at individual branches. As a result, the National Bank decided to concentrate cash handling services at four locations – Berne, Geneva, Lugano and Zurich – from 2000 onwards. In return, the decentralised network of agencies for the local receipt and distribution of banknotes and coins was reinforced (cf. p. 65).

Interbank clearing system SIC

The electronic Swiss Interbank Clearing system (SIC) is operated by Telekurs on behalf of the National Bank. The banks execute their payments through this system. SIC has a direct link to SECOM, the securities clearing system of SIS SegaInterSettle (formerly SEGA). This link makes it possible for securities and repo transactions to be carried out with simultaneous delivery and payment. Since June 1999, transactions at ATMs, automated refuelling machines and ec-direct payments have been processed in SIC. With the exception of cheques, all types of payment services offered by banks have now been integrated into SIC.

Introduction of intraday liquidity facilitates payment transactions

The intraday liquidity offered by the National Bank (cf. p. 37) facilitates payment transactions via SIC. This is especially important in view of the planned introduction of CLS (Continuous Linked Settlement). CLS is an international multi-currency processing system for foreign exchange transactions. By linking payments in both currencies, the principal risk can be eliminated. In order for CLS to function smoothly, banks must be able to process their payments at certain times of the day. Intraday liquidity makes this easier.

Euro payments of the Swiss banks

With the launch of stage three of the European Monetary Union at the beginning of 1999, the central banks of the participating EU countries put the TARGET system (Trans-European Automated Real-time Gross Settlement Express Transfer), which is designed to interlink their national payment systems, into operation. TARGET facilitates implementation of the monetary policy of the European Central Bank as well as cross-border payments in the euro area. Only the payment systems of EU member states are eligible to be linked to TARGET. In order to have access to TARGET, the Swiss banks run a special clearing bank in Frankfurt, the Swiss Euro Clearing Bank (SECB). The SECB is subject to direct German banking supervision. The euroSIC system set up by the SECB (to process transactions) is used primarily for payment transfers in euros between Swiss banks, while the majority of cross-border payments are still effected via the traditional correspondent bank network.

2.2 Provision of currency

Currency in circulation

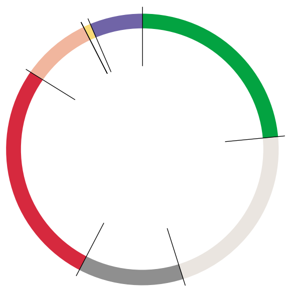
In 1999, the average banknote circulation was Sfr 30.8 billion, i.e. 4.24% more than in 1998. At Sfr 2.2 billion, coins in circulation equalled the previous year's figure.

Manufacture and disposal of banknotes

The National Bank obtained 75.7 million freshly printed banknotes with a face value totalling Sfr 28.4 billion from Orell Füssli Security Printing Ltd. 85.1 million damaged or recalled notes with a face value of Sfr 8.6 billion were destroyed.

Currency turnover

In 1999, the National Bank's branches registered a 5.6% decrease in currency turnover in value terms, bringing the total to Sfr 170.6 billion. The branches received approximately 465 million notes (5.7% less than in 1998) and checked them for authenticity, quality and quantity.



Bank notes in circulation
Denom. units (number in millions)

10s 60

20s 55

50s 32

100s 69

200s 21

500s 2

1000s 16

Annual average

2.3 SIC payment transactions

Declining payment flows

At the end of 1999, there were 291 participants in SIC versus 288 at the end of 1998. During the year under review, an average of 556,000 payments per day totalling approximately Sfr 170 billion were processed compared with Sfr 182 billion in the previous year. This decline is primarily due to the fact that at the beginning of July, the SIC accounts of two big banks were joined together as a result of their merger. A considerable part of the volume processed by SIC stems from processing foreign exchange transactions. In the course of 1999 the one billionth transaction was processed since SIC started operating in 1987.

Development of payment flows in SIC

	1995	1996	1997	1998	1999
Transactions per day thousands					
Average	382	427	480	529	556
Maximum	1 154	1 156	1 303	1 323	1 384
Volume per day Sfr billions					
Average	128	150	182	182	170
Maximum	257	290	305	270	296
Frequency of turnover per day[1]					
Average	57	58	58	49	48
Maximum	112	90	97	82	93

1 Total volume divided by the end-of-day volume of sight deposits

Reduction of pending payments as a result of the introduction of intraday liquidity

As a result of the introduction of intraday liquidity (cf. p. 37) payments in SIC can be processed faster. Between October and December 1999, the number of payments pending in the system thus decreased considerably.

Processing in SIC without intraday liquidity

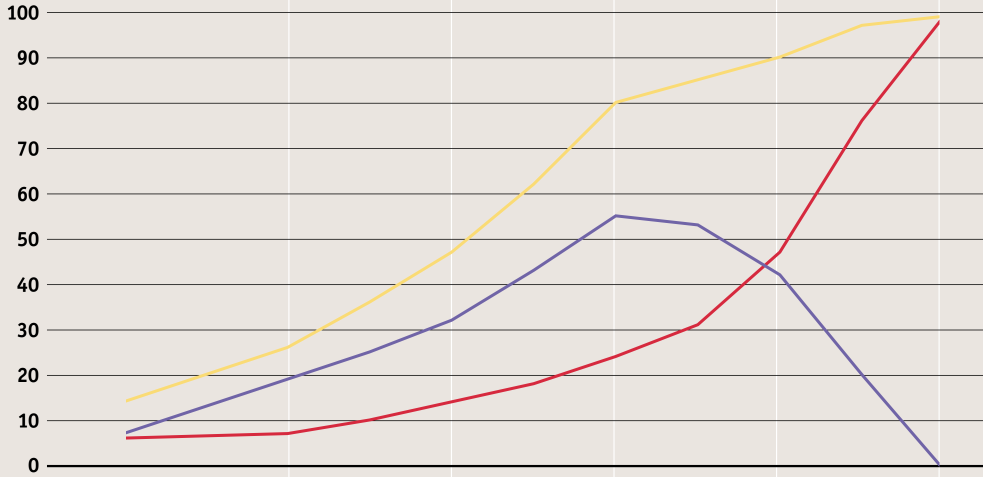
Payments entered

Payments in queue

Payments settled

January to September 1999.

Percent of the volume of payments in value terms.



Processing in SIC with intraday liquidity

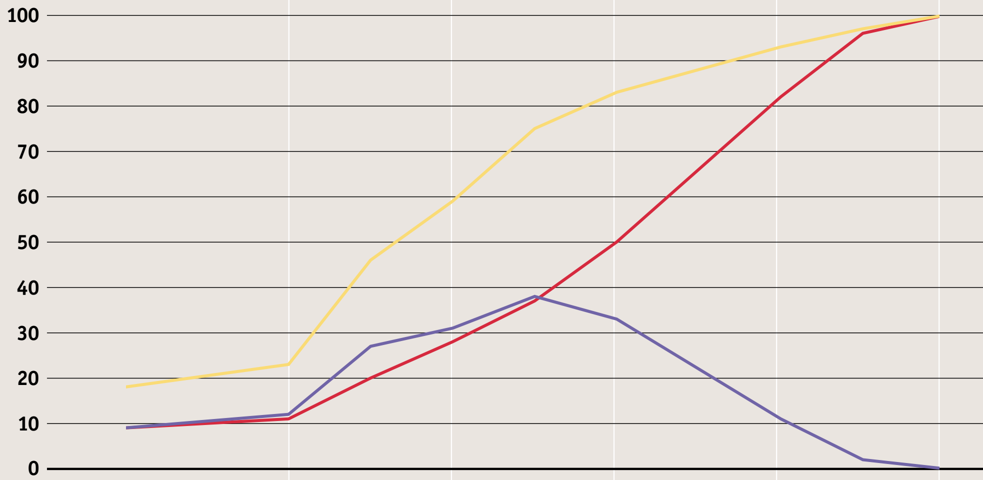
Payments entered

Payments in queue

Payments settled

October to December 1999.

Percent of the volume of payments in value terms.



08:00 10:00 12:00 14:00 16:00

3 Statistical tasks

Basis

The National Bank collects from the banks and other enterprises the statistical data which it needs for performing its tasks. This data is used for analyses concerning monetary policy, for the survey of economic developments and for economic forecasts, and for analysing developments in the financial markets. The National Bank collects statistics on the banks' balance sheets and on other important aspects of banking business, as well as on investment funds and the balance of payments. This includes data on direct investment, which industrial and service sector enterprises are required to supply to the National Bank and which are then reflected in the balance of payments. The National Bank also gathers information on the money and capital markets, notably on short- and long-term interest rates. All these statistics are compiled by agreement with the data-reporting institutions and enterprises and conform closely to international standards.

New data

The new regulation concerning the exchange of data in the Implementing Ordinance to the Swiss Banking Law (Art. 54) enabled the National Bank to strengthen and increase its cooperation with the Federal Banking Commission (FBC) in the field of statistics in 1999. It undertook to collect various types of banking statistics which the FBC requires for its task as supervisory authority. Furthermore, it decided, in conjunction with representatives of the banks, the Swiss Bankers' Association and the State Secretariat for Economic Affairs (seco), to compile a new category of statistics covering the banks' loans to small and medium-sized enterprises. This data will be published for the first time in 2001. The National Bank also developed a concept for a survey on cashless payment transactions providing information on the effects of new payment habits of the public on the demand for money. This survey will be conducted for the first time in 2000.

Supplement to the calculation of capital market yields

The National Bank supplemented the data on the average yield on Confederation bonds with data on the maturity structure of interest rates on debentures of the Confederation. At the beginning of 2000, this data was first published in the form of a yield curve. It gives a more precise picture of the situation on the capital market than the former average yield and facilitates a comparison with corresponding foreign statistics.

4 Services on behalf of the Confederation

Basis

The National Bank acts as the bank of the Confederation. The National Bank Law lays down the services to be performed. It prohibits deficit financing of the public sector by means of central bank credits and stipulates that most of the services must be rendered free of charge. On this basis, the National Bank performs tasks on behalf of the Confederation in the payments field and in coinage, in borrowing on the money and capital markets and in the investment of funds.

Agent in the money market

The Federal treasury and Swiss Post hold their liquid funds in the form of sight deposits or short-term time deposits at the National Bank. The National Bank pays interest on these sight deposits up to an amount of Sfr 800 million at the call money rate, on time deposits at market rates. In the event of liquidity bottlenecks, it assists the Confederation in taking out money market credits from banks.

Federal bonds and money market debt register claims

In 1999, the National Bank arranged 52 issues of money market debt register claims (MMDRC) and 10 bond issues on behalf of the Confederation. MMDRCs to the total amount of Sfr 75.7 billion were subscribed, and Sfr 46.8 billion were allocated. Federal bonds were subscribed for a total amount of Sfr 8.1 billion, of which Sfr 4.1 billion were allocated.

Federal bonds and money market debt register claims

	1995	1996	1997	1998	1999
Number of issues[1]					
Federal bonds	7	10	7	11	10
MMDRC	52	52	53	52	52
Total subscribed in billions of francs					
Federal bonds[2]	8.2	10.6	7.0	10.8	8.1
MMDRC	94.7	103.1	89.0	89.4	75.7
Total allocated in billions of francs					
Federal bonds[2]	3.5	4.5	3.7	5.2	4.1
MMDRC	47.1	49.9	49.8	45.1	46.8
Outstanding at year-end in billions of francs					
Federal bonds	29.8	33.8	37.5	43.3	46.5
MMDRC	14.1	14.7	14.1	12.9	17.1

1 Based on date of payment

2 Excluding the National Bank's own tranches

Administration and processing services

The National Bank accepts payments on behalf of the Confederation and carries out remittances to third parties both in Switzerland and abroad up to the amount of the Confederation's sight balances. Federal agencies cover their cash requirements through withdrawals from the National Bank. The National Bank also keeps the federal debt register and administers securities holdings and objects of value on behalf of the Confederation.

5 Cooperation with federal agencies

5.1 Cooperation with the Federal Department of Finance

Group of experts for the "Reform of the monetary order"

The group of experts for the "Reform of the monetary order" set up by the head of the Federal Department of Finance in April 1997 had been commissioned to study all the problems arising from the revision of the monetary constitution on a legislative and regulatory level (cf. 91st Annual Report, p. 38). The group of experts is composed of three representatives each from the Department of Finance, the National Bank and from academic circles. After completing its task of preparing a new Federal law on currency and payment instruments (cf. p. 44), the group of experts, in 1999, devoted itself primarily to preparing the ground for the revision of the National Bank Law.

Comprehensive reform of the National Bank Law planned

In view of the renewed monetary constitution, the group of experts expressed itself in favour of a comprehensive revision of the National Bank Law. The present law dating from the year 1953, which had been partially amended in 1978 and 1997, has become outdated in several respects: the tasks of the National Bank, its legal status and its organisation require a rewording that takes account of developments in international monetary conditions and the institutional environment. Thus, for example, the embodiment of the National Bank's independence in the Federal Constitution requires certain adjustments on the legislative level. Since the National Bank has the legal form of a special-law joint stock company, the 1991 reform of Swiss company law is also to be taken into account. In this connection, the structure of the National Bank's various bodies must be subject to scrutiny. In view of the radical changes currently characterising the financial markets, the central bank's legal scope of business is also to be made more open and more flexible. Finally, those sovereign instruments of the National Bank that are based on concepts dating from the time of fixed exchange rates (control of new securities issues, control of capital transfers) are no longer feasible in globally integrated financial markets, and their removal from the National Bank Law is thus indicated. Other sovereign instruments, such as the statistical reporting obligations of financial institutions and minimum reserve requirements, need to be adapted to modern standards. The group of experts for the "Reform of the monetary order" will submit a draft, with comments, for a new National Bank Law in 2000.

"Euro" working group

The National Bank participated in a working group under the chairmanship of the Federal Department of Finance which dealt with the legal framework for the use of the euro in Switzerland. The working group came to the conclusion that there are no major obstacles to the use of the euro in private-law contracts while in the areas of customs, taxes and social security the euro can only be used in exceptional cases. In the current state of integration, a removal of legal obstacles in these fields can, in the view of the working group, be considered at best in occasional cases only. The working group was confirmed in its findings by a survey of the Swiss Institute for Business Cycle Research at the Swiss Federal Institute of Technology. Industries, the hotel and restaurant business and the retail trade thus do not expect the introduction of the euro to bring about any fundamental changes in the use of foreign payment instruments in Switzerland.

5.2 Cooperation with the Federal Banking Commission

Precautionary measures for the year-2000 changeover

In 1999, the Governing Board held two meetings with the Federal Banking Commission for a detailed discussion of the economic situation and current developments in the banking system, including aspects relating to repo business and settlement systems. Furthermore, a working group consisting of representatives of the National Bank and the Federal Banking Commission dealt with selected topics in connection with the year-2000 changeover. The main intention was to harmonise the National Bank's contingency measures for providing the banking system with liquidity with those of the Banking Commission for supervising the technical preparations of the institutions for the changeover at the turn of the year and to devise a common response strategy. In the event, however, this was not needed as the financial sector entered the year 2000 without any problems.

6 International cooperation

On an international level, the National Bank cooperates mainly with the International Monetary Fund (IMF), the Group of Ten (G-10) – which represents the ten leading industrial countries and Switzerland – and the Bank for International Settlements (BIS). The National Bank also participates in international cooperation by providing technical assistance and specialist training.

6.1 Cooperation in the International Monetary Fund

Switzerland's reserve position

Switzerland's IMF membership is exercised by the Federal Department of Finance and the National Bank. The IMF finances its activities with the member countries' quotas. The portion of the Swiss quota used by the IMF is equal to Switzerland's reserve position in the IMF, which is financed by the National Bank. It may be likened to a currency reserve and may be used as such by the National Bank at any time. At the end of 1999, Switzerland's reserve position amounted to 1,224.8 million SDRs (special drawing rights), compared to 1,597.8 million SDRs at the end of 1998. (At the end of 1999 1 SDR was equivalent to Sfr 2.19.) The decline in the reserve position is due to the fact that in 1999 an increasing amount of funds from loan repayments flowed back to the IMF.

Conversion of the Enhanced Structural Adjustment Facility II into a Poverty Reduction and Growth Facility

At the Annual General Meeting of the IMF at the end of September, the member countries approved the conversion of the Enhanced Structural Adjustment Facility (ESAF II) into a Poverty Reduction and Growth Facility (PRGF). Via ESAF II, the IMF had granted low-income member countries long-term preferential loans in support of economic adjustment programmes since the end of the eighties. As a result of the conversion into a PRGF the facility is aimed more directly than previously at combating poverty. According to the Decree of the Federal Parliament on Switzerland's participation in the prolonged Enhanced Structural Adjustment Facility of 3 February 1995, the National Bank finances the Swiss contribution to the loan account of ESAF II. Until the end of 1999, the IMF utilised a total amount of 109.3 million SDRs from Switzerland's loan commitment of 151.7 million SDRs. The still unused loan commitment of 42.4 million SDRs can be drawn on until the end of 2001. The individual drawings have a maturity of ten years, with repayments in instalments beginning five-and-a-half years after payment. The Confederation guarantees the National Bank the timely repayment of the credits including interest payments; it also finances the interest rate subsidies.

6.2 Cooperation in the Group of Ten

Loan repayments by the IMF

In 1999, the IMF repaid loans which it had utilised in the previous year in the context of the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). In exceptional circumstances and in the event of a shortage of funds, the GAB permit the IMF to borrow funds from the Group of Ten countries according to a distribution key agreed upon in advance. The NAB are parallel agreements to the GAB, in which fourteen further countries participate. In July 1998, the IMF had activated the GAB for financing a stand-by credit in favour of Russia, and in December 1998 it had activated the NAB for a similar loan in support of Brazil, in both cases with the undertaking that the utilised funds would be repaid to the participating countries as soon as the IMF again had sufficient capital of its own. With the increase in quotas that had entered into force on 22 January 1999, the capital of the IMF received a substantial boost. At the beginning of March 1999, the IMF fully repaid the loans from the GAB and the NAB. It transferred 86.6 million SDRs from the GAB and 143.5 million SDRs from the NAB (cf. p. 89) to the National Bank, which exercises Switzerland's membership in the above borrowing arrangements.

6.3 Cooperation with the Bank for International Settlements

BIS bodies

The central bank governors of the G-10 countries meet regularly at the BIS for an exchange of information. Moreover, the National Bank is represented in various committees of the BIS including the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems and the Committee on the Global Financial System. In 1999, the National Bank also participated in the activities of the Joint Year 2000 Council, whose task it was to prepare the financial sector for the year 2000 changeover.

Revised capital adequacy recommendations of the Basel Committee on Banking Supervision

In summer 1999, the Basel Committee on Banking Supervision adopted a consultation paper on revised capital adequacy recommendations. This paper proposes a concept resting on three pillars. The first pillar are capital requirements. In this domain, a main feature of the new approach is the measuring of credit risks based on banks' internal ratings; for less sophisticated banks – which are the majority of all banks – a standard procedure with given risk weights will continue to be available. In future, capital adequacy requirements will also reflect outliers with respect to interest rate risks as well as organisational and other risks. The second pillar of the concept is a review of capital ratios by bank supervisors; banks that do not have first-rate internal risk measuring and control procedures should have to meet higher capital requirements. The third pillar is market discipline, which is to be realised primarily through greater transparency.

Studies of the Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision drew up a worldwide study on the implementation of its core principles on banking supervision. In addition, it published various surveys on the subject of hedge funds ("Highly Leveraged Institutions"), supervisory implications of the financial crisis in Southeast Asia and on best practices in the banks' various lines of business.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems published two reports. The first one deals with securities lending and was prepared in cooperation with the International Organisation of Securities Commissions (IOSCO). The report gives a survey of customary transactions, market structures, legal aspects and the associated risks. Moreover, it describes the implications for market participants, infrastructure operators and the responsible authorities. The second report discusses widely used payment instruments (such as cash, cheques, debit and credit cards). It describes in detail the characteristics and functioning of these payment instruments and includes statistics on their use in the G-10 countries.

Committee on the Global Financial System

The Committee on the Global Financial System (formerly called Eurocurrency Standing Committee) followed developments in the financial markets, notably in the emerging countries. It published surveys on the development of the repo markets and on the turbulence in the international financial markets in autumn 1998. It also submitted recommendations for the organisation of the markets for government bonds.

6.4 Balance-of-payments aid

Increase in the limit in the Federal decree on Switzerland's cooperation in international monetary measures

The Federal decree on Switzerland's cooperation in international monetary measures enables Switzerland to participate in international support operations for the prevention or elimination of serious disruptions in the international monetary system. Up to now, a credit ceiling of Sfr 1 billion has been available for this purpose. In the wake of the international financial crises, recourse to guarantee and credit commitments has been considerable. At the beginning of 1999, Switzerland had outstanding commitments of almost Sfr 930 million. Since the globalised financial system has become increasingly susceptible to crises, the Federal Council submitted a proposal to parliament to the effect that the credit ceiling, which had been left unchanged since 1984, should be doubled. On 18 June 1999, the federal parliament approved a respective amendment to the Federal decree on Switzerland's cooperation in international monetary measures. After the referendum deadline had expired unused, the Federal Council put the amendment into effect on 1 December 1999. The loans are financed by the National Bank, with the Confederation guaranteeing repayment of the loans including interest.

Repayment of a loan extended as balance-of-payments aid

On 4 February 1999, within the time limit, the central bank of Romania repaid a loan which had been extended to it as balance-of-payments aid. Switzerland had granted the credit to the amount of $ 40 million to Romania in 1992 in the context of the Federal decree on Switzerland's cooperation in international monetary measures.

6.5 Technical assistance and training

Technical assistance

In 1999, the National Bank provided technical assistance to the National Bank of Kyrgyzstan, the National Bank of Slovakia, the National Bank of the Republic of Tajikistan, the State Bank of Vietnam and the central bank of the West African Monetary Union.

"Studienzentrum Gerzensee": courses on monetary policy and financial markets, …

The "Studienzentrum Gerzensee" (Gerzensee Study Centre) organised five courses for employees of foreign central banks in 1999. The courses offered training in the fields of monetary policy and financial markets. They were attended by a total of approximately 130 persons from more than 90 countries.

… international scientific conferences …

In addition, the Gerzensee Study Centre held three scientific conferences on economic subjects and a panel discussion on the reform of pension systems. Internationally renowned researchers took part in these conferences.

… and post-graduate courses

The Gerzensee Study Centre organised post-graduate courses for students of Swiss universities; in these courses renowned professors provided specialised instruction in all the main fields of economic science.