

Central Bank Accounting and Budget Committee

Minutes of the Meeting 2005-07-11/13

The Central Bank Accounting and Budget Committee met at the offices of the Central Bank of Brazil from July 11 to 13, 2005, with the participation of the following members:

Central Bank of the Argentine Republic	Adriana Fischberg
	Mercedes Cavana
Central Bank of Brazil	Marisa Minzoni
	Leopoldo Montero
	Leonardo Viera
	Jorge Lyra
	Otto Lobo
Central Bank of Chile	César Caro
	Sergio Vallejos
Bank of Guatemala	Bernardino González
Central Reserve Bank of Peru	Carmen Aguilar
Central Bank of Uruguay	Jorge San Vicente
CEMLA	Fernando Sánchez Cuadros

Invited guest:

Banco de España (Bank of Spain)	Antonio Rosas
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The following issues were raised in the meeting:

1. Analysis of the questionnaire on the application of International Financial Information Standards (IFIS) in central banks and the identification of difficulties in those aspects that could not be applied
 2. Agenda for the X meeting on accounting and budget aspects of Central Banks
 3. Restructuring of the Committee
 4. Future Committee activities
- 1. Analysis of the questionnaire on the application of IFIS in central banks and the identification of difficulties of those that could not be applied.**

In the IX Meeting on Accounting and Budget Aspects of Central Banks it was agreed to make a survey on the degree of accounting adherence to the IFIS by the central banks belonging to CEMLA. The questionnaire was drawn up the colleagues of the Accounting Department of the Central Bank of Brazil, with the collaboration of Ms Carmen Aguilar of the Central Reserve Bank of Peru. CEMLA distributed the questionnaires among the Spanish-speaking associate members and received responses from the central banks of Argentina, Bolivia, Brazil, Colombia, Costa Rica, Chile, Guatemala, Mexico, Nicaragua, Peru, Uruguay and Venezuela. The

work of systematizing the responses was done by the colleagues of the Accounting Management of the Central Bank of Chile.

The Committee used these results to identify the Standards that central banks believed involved complicated application, particularly for central banks, with purposes and objectives that differ from other companies and, consequently, their balances require considerations that are not covered in the accounting records recommended by IFIS, and also because the current legislation in some countries prevents the full application of the IFIS. It was also noted that some developed countries have not considered the application of such standards and they follow their own provisions.

The Committee's concern about finding the reasons why central banks have problems in applying such standards lies in the reiterated recommendations that the International Monetary Fund has made to Latin American and Caribbean central banks in order to bring their accounting into line with the recording criteria envisaged in these Standards, as well as the concern of the central banks and the Committee itself to adopt standardized international criteria that contribute to improved transparency and the comparability of financial information. Strictly speaking, not applying the IFIS implies problems concerning the comparison required by multilateral organizations and market analysts.

Additionally, the fact that the accounting standards implicit in the Organic Laws of many central banks hinder the application of certain IFIS has to be considered, plus the regimen legally established for the distribution of benefits for these institutions, which together with the application of the IFIS may affect the financial strength of the central banks. In this respect, it is advisable to further study the role of a central bank's assets and to determine the bank's needs for its own resources, even though it must be acknowledged that there have been, or are, cases of a central bank with limited or even negative resources that have been able to achieve price stability (although there has been no analysis of whether the cost borne could have been less). Many studies attest to the existence of an inverse correlation between central bank independence (between it and the financial sector) and inflation control. A negative patrimony, however, affects its image and could lead to loss of credibility in the value of the currency.

Although strictly speaking, not applying certain IFIS could, in principle, imply problems in the comparison required by multilateral organizations, this can easily be remedied by avoiding the undesirable parts of such with the establishment of clear and specific accounting standards for the central banks and, at the right time, establishing large doses of transparency in the Notes that annually accompany the financial statements of these institutions.

Firstly, the Committee analyzed the relevance of the classification of the proposals presented at the meeting. It was decided to weight questions to adequately measure the degree of difficulty in applying the standards, depending on

whether the main impediment was the Organic Law or the national accounting standards.

The Committee identified those IFIS that should be analyzed in greater depth to determine their application in central banks' accounting, which are as follows: 2, 7, 14, 21, 32, 37 and 39. In reference to these IFIS, the Committee agreed to draw up technical notes that contribute to their better understanding by the central banks associated with CEMLA. After a detailed analysis of these IFIS, some considerations were made.

Considerations for the preparation of technical notes

- a) The technical notes may give the central banks legitimate accounting criteria that help improve their positions concerning the application of the IFIS when they claim difficulties in doing so.
- b) The lack of uniformity in the presentation of financial statements weakens the position of the central banks when they are visited by multilateral organizations, especially the IMF Oversight Mission.
- c) The IMF accepts the accounting applied by the European Central Banks System as good accounting practice since it has a set of good practices even though it diverges from the IFIS in major aspects. These aspects should be identified.
- d) It is necessary to determine whether it is desirable to adopt the IFIS when preparing the central banks' financial statements and to determine whether this is done out of conviction or need, and if the adoption can be reversed, or if the exceptions that are the responsibility of the central banks are taken into account.
- e) A homogenous and harmonized structure of the financial statements of the Latin American and Caribbean central banks will help state their specific accounting requirements.
- f) The Committee will deal with the application of the IFIS in the central banks' accounting, while reiterating its commitment with information transparency and its publication in various media, including the central banks' websites. In order to accomplish this, it is important to explicitly state the role of the Notes to the Financial Statements, which disclose the exact considerations for their adequate understanding, the accounting criteria applied and their impact on the financial situation. In this case, the economic, accounting, financial and legal arguments must be stated, in addition to the criteria being applied in their place.

Considerations on specific IFIS:

- a) **NIC 7** – The Cash Flow Statement is used to determine how companies generate cash. Nevertheless, the central bank is a generator of cash; consequently, this statement is irrelevant for operations in local currencies. On the other hand, as a depository of the reserve assets, the status of the cash flow could be drawn up for these assets. The Funds Flow informs investors about the flows that the institution is capable of generating in the future.
- c) **NIC 2 and NIC 39** - One part of the gold is a monetary asset, and the other, such as coin collections, for example, is handled as a non-monetary asset. In its accounting, the IMF handles it as a non-monetary asset and applies the **NIC 2**. If there is good delivery in the balance of payments manual, gold is handled as a monetary asset. Nevertheless, **NIC 39** does not handle gold as a financial asset.
- d) **NIC 14** might not imply operation problems in the balance, but there are problems in the results account, because it is necessary to separate the results in terms of various kinds of operation for which it must be borne in mind that it is a public market and also the confidentiality requirements of monetary policy must be considered.
- e) **NIC 21**. In some countries there are legal problems dealing with valuation adjustments. A possible solution would be to enter them in the results and only distribute the results obtained; this would make it possible to control the impact on liquidity and thus avoid the distribution of earnings not made.
- f) **NIC 37** prevents the constitution of provisions for future risks. The particular position and objectives of the central banks make it possible to permanently maintain considerable risk positions that are difficult to cover or should not be covered in the way that commercial companies do. To this end, if it is not possible to constitute reserves, provisions could be formed for future exchange rate risks by using adequate statistic methodologies. There is also a risk in terms of the final instance lender (FIL).
- g) **NIC 39 and NIC 32**. The financial assets are initially recognized in entry at cost, including the transaction, which is the market price. There is no consensus on their later classification: available for sale, kept until maturity, for negotiation and outstanding loans.

Instruments received as guarantee are another problem. What happens to the guarantee instruments to which the NIC 39 is not applied? Are they placed as assets or credits?

Structure of the technical note

1. Background
2. IFIS summary
3. IFIS analysis. Specify the problem posed by its application in the central bank's accounting.
4. Alternative general framework or accounting criteria proposals
5. Conclusion

Handling results

The technical notes must "circulate" among the Committee members to discuss them and to draft a single document that will be presented to the Board of Governors, with the proposal to send it to the IASB for appraisal.

Distribution of activities

1. The Committee agreed to make a mini-survey to study how the classification of assets is made and what policy orientations could be gleaned from this.
2. Review of the classification of the responses received in the survey to later, through CEMLA, ask the accounting managers to express conformity with the classification of their responses. The criteria to be used in the review are:
 - 1 – applicable
 - 2 – not applicable
 - 3 – operation not carried out
3. The request is repeated for the countries consulted that have not answered the survey: Cuba, Ecuador, El Salvador, Honduras, Paraguay and Dominican Republic (CEMLA). The translated version will be sent to Jamaica, Bahamas, Trinidad and Tobago, Barbados, Surinam, Guyana and the Eastern Caribbean. (CEMLA)
4. Update the list of accounting managers and assistant managers and updating of the information in the website by the CEMLA representative.
5. Circulate articles you know about concerning subjects related to IFIS in general and their application in central banks (all) to place them in the CEMLA Committee website. CEMLA will disseminate the existence of the website for the other countries.

6. Summary of the technical notes for presentation in the XI Meeting – Technical Coordinator.

2. X Meeting on Accounting and Budget Aspects of Central Banks

Date and venue:

The X meeting will be held in the first half of September 2006 in Rio de Janeiro, Brazil, under the auspices of the Central Bank of Brazil. The exact date of the meeting will be set in coordination by the host and CEMLA.

Agenda:

- Financial Statements (Balance, Profit and Loss Statement and Statement of Change in Net Assets). The purpose is to make progress in creating a uniform structure for the presentation of these reports. The following points will be presented at the meeting:

The document to be presented in the meeting has two parts:

- a. Structure of financial Statements (Central Bank of the Argentine Republic)
 - b. Explanatory notes (Bank of Spain)
- Presentation of strategic planning, its relationship with the central bank's budget and management indicators. The central banks of Chile, Bolivia and Brazil will be asked to make a presentation. An external speaker, possibly from the Bundesbank or another bank will be invited for appraisal. If there are other suggestions, please give the Committee due notice prior to the X Meeting.
 - Central bank assets. Does a central bank need assets? What is the minimum capital for a central bank? Is it the amount that enables it to face the risks arising from its functions? Expert from an international organization invited.
 - Consider the invitation of an external exhibitor who gives an economic approach to the discussion on the application of the IFIS.
 - The technical notes to be prepared by the Committee will be analyzed in work groups.

Methodology:

- The meeting will be held on the basis of full sessions and work groups. The meeting Schedule will organize the times as has traditionally been done in the previous meetings (presentations in the mornings and work groups that discuss selected subjects in the afternoons) or it will use the entire first day for the presentation of documents proposed on the core subject of the

meeting and then use the second day for work groups to work on the conclusions and recommendations of the subject proposed, to present them on the third day to the full session in which works on other subjects presented by the participating central banks will be scheduled, depending on what the Committee decides.

- The speakers will be recommended to limit themselves to 40 minutes for their presentations, with a suggested limit of 20 slides in PowerPoint presentations and additional printed slide information of no more than 15 pages.

3. Committee restructuring

It was agreed to appoint Ms Carmen Aguilar, Assistant Accounting Manager of the Central Reserve Bank of Peru as Technical Coordinator. The next renewal of the Technical Coordination will take place in the XI Meeting and then every two years. The coordinator may remain in office for an additional period as a maximum.

Technical Coordinator's Responsibilities

1. Establish links between the Committee members and CEMLA to determine the agendas of the biennial meetings and the Committee.
2. Participate in preparing the minutes of the Committee and collaborator meetings.
3. Follow up compliance with activities of the Committee members and collaborators.
4. Prepare and present the Committee's report to the meeting.

4. Future Committee Activities

The Committee will meet two days before the X Meeting on Accounting and Budget Aspects of Central Banks in Rio de Janeiro, Brazil.