

## **X MEETING ON ACCOUNTING AND BUDGET ASPECTS OF CENTRAL BANKS**

### **Conclusions and recommendations**

The Central Bank Accounting and Budget Committee drew up a set of Technical Notes on the International Financial Reporting Standards where a degree of complexity was identified in the application such standards to central bank accounting. This complexity was identified as a result of survey of the applicability of IFRS in central banks carried out by the Committee. The Technical Notes presented in the XI Meeting on Accounting and Budget Aspects of Central Banks referring to IAS 2, 7, 14, 21, 32, 37 and 39 were analyzed in work groups of the participants in the meeting, with the following results:

#### **General Considerations**

The International Accounting Standards do not ever consider the unusual nature of central banks and consequently neither do they consider the particular characteristics of certain elements that make up their equity, the risks to which they may be subjected and the interference that may arise in the application of such standards in compliance with the objectives. Nevertheless, central banks may apply the above-mentioned Standards provided that the safeguards necessary to protect their equity from undesired effects are established or will be established, in addition to ensuring full compliance with the basic mission.

The considerations regarding all the international accounting standards analyzed are as follows:

#### **IAS 2 “Treatment of gold”**

##### **Goal**

Determine the treatment of gold as inventory or as a financial asset. Determine the correct recording of gold holdings.

##### **Results of the analysis**

- 1- Based on paragraphs 10 to 12 of IAS 8 that permit the use of a distinct accounting policy, in the absence of a specific standard, in order to consider good delivery gold bars as a financial asset. Thus, by analogy, apply IAS 39, depending on the classification of the policy determined by each Central Bank.
- 2- Consider other kinds of gold (minted, medals, sheet, non-good delivery bars, etc.) as inventory in accordance with IAS 2.

## **IAS 7 “Cash flow statements”**

### **Goal**

Provide information about the movement of cash and cash-equivalents through the presentation of a cash flow statement, with classification depending on whether they arise from exploitation, investment or financing activities.

### **Results of the analysis**

A Central Bank’s cash flow statements are an analytical tool from which it is possible to obtain the most important variations affecting the most sensitive economic-financial variables for a country’s economy, such as International Reserves and Monetary Liabilities.

The definition of “cash” or “cash equivalents” for central banks would appear to be substantially different to the definition “cash” set forth in IAS 7 for enterprises in general.

Consequently, the recommendation is that the “cash” and “cash equivalent” concepts, as criteria applicable to Central Banks, should cover the integral balance items of the “International Reserves” and the “Monetary Liability”.

The application of the funds thus defined could determine which ones have been sources or resources generated by administration and where they have been applied.

## **IAS 14 “Financial Information by Segments”**

### **Goal**

Establish the policies for financial reporting by segments, for enterprises “whose debt or equity securities are publicly traded and those in the process of issuing such securities” (IAS 14, paragraph 3), that is, information on the different kinds of products and services carried out by the company and the different geographical areas in which it operates, in order to help the users of financial statements to:

- better understand the returns of the company in the past;
- better assess the returns and risks of the company; and
- make a more informed judgment of the company as a whole.

### **Results of the analysis**

- 1 This standard could probably be applied by central banks with regard to certain significant operations that could be segmented.
- 2 The applications in the case of some operations could imply new requirements in the re-adaptation of accounting information systems, which often require a certain amount of time to start up.
- 3 The application would help reveal the origin of the most important results obtained by a Central Bank and the assets and liabilities that gave rise to such.

## **IAS 21 “Effects of variations in the exchange rate of the foreign currency”**

### **Goal**

Determine how to make accounting records of the results not realized, as a consequence of the variations in exchange rates against the functional currency.

### **Results of the analysis**

Most of the countries supported alternative No. 1 proposed by the Committee consisting of:

“The results not realized arising from the conversions of monetary items, at the date of the financial statements, because the exchange rates used were different to those used in registering the operation in the period, will be directly transferred to a reserves account by reassessment, which will form part of the net equity.”

One of the countries supported alternative No. 2, which was drafted as follows:

“The results from exchange rate differences will be imputable to the profit and loss accounts when they occur. Consequently, the central banks must have institutional mechanisms that allow them to prevent the distribution of non-realized results.”

## **IAS 32 and 39 “Classification of Financial Instruments”**

### **Goal**

Determine the correct accounting treatment for financial instruments held by the Central Bank for the administration of international reserves, monetary policy, among others.

### **Results of the analysis**

It is believed that the Central Banks could apply these international standards, bearing in mind that the classification of a financial instrument must be made by the investor at the time of acquisition, with the establishment in the applicable case of agreements with the government that regulate the mechanisms to be applied in order to deal with the distribution of the results not realized, because the effects of such application could lead to:

- 1 The need to make a timely decision on the distribution of profits; the classification of the results generated into realized and not realized.
- 2 Expose the institution’s equity to the effects of the volatility in the market price of financial instruments.

## **IAS 37 “Provisions, Contingent Assets and Contingent Liabilities”**

### **Goal**

Ensure that the correct bases are used for the recognition and measurement of the contingent assets and liabilities provisions in the accounting records of a central bank and in the item referring to the coverage of future market risks.

### **Results of the analysis**

As a result of the deliberations by all the members of the group, it was established that:

Five of the countries represented in this group support the Committee's proposal, which was finally drafted as follows:

"In order to establish timely coverage against future market risks, reserves should be constituted instead of provisions. In the cases in which this is not possible, the central banks must have institutional mechanisms that make it possible to constitute such reserves for the above-mentioned risks."

Two of the countries represented did not back the Committee's proposal because provisions against future market risks are being incorporated into their results.

### **General conclusion on the Technical Notes**

There is consensus among the participants in the meeting to support the proposal by the Central Banks Accounting and Budget Committee concerning how to deal with IAS 2, 7, 14, 21, 32, 37 and 39 stated in the following terms in the Committee's Report presented in the meeting:

"Central banks carry out very specific operations that require differentiated treatment, as in the case of gold, the assessment of international reserves and the cash flow statement.

A solution for the problems of a central bank would be to take the IFRS as an accounting framework and to provide institutional mechanisms when the application affects compliance with the activities inherent to a central bank.

The central banks must work in parallel to establish agreements with the Treasury that regulate the distribution of gains or losses not realized.

We believe that it is advisable for the international community to assess the specific aspects of central banks so that progress can be made in the harmonization of accounting standards."

### **OTHER SUBJECTS DEALT WITH AND AGREED UPON**

1. The participants in the X Meeting support the recommendations regarding the increased transparency through the process of harmonizing the contents of the Notes to the Annual financial statements. Furthermore, they think that, once a prudential period of time has elapsed from the issuance of the corresponding Recommendation, there should be a follow up of compliance and, if positive, the Committee should

work further on the contents of such notes, while bearing in mind the recommendations made in the IAS/IFRS.

2. Additionally, in order to have more accurate information about the application of certain IFRS by central banks, it is believed that the survey made in 2005/2006 should be repeated when deemed appropriate by the Committee, provided that there is sufficient prior activity to avail of such information before the next meeting is held.

In conclusion, the participants in the X Meeting on Accounting and Budget Aspects of Central Banks support the Committee in the subjects raised and they assume the commitment to collaborate and effectively participate in complying with the Recommendation to harmonize the Notes, and compliance with the survey proposed by the Committee.