

Central Bank Accounting and Budget committee

Minutes of the meeting of 2007 – 10 – 10/12

The Central Bank Accounting and Budget Committee met on October 10 to 12, 2007 in the offices of the Banco Central de la República Argentina, with the participation of the following members:

Banco Central de la República Argentina	Adriana Fischberg
Banco Central do Brasil	Mercedes Cavanna
Banco de la República	Marisa Minzoni
Banco Central de Chile	Jairo Contreras
Banco de Guatemala	César Caro
Banco de México	Bernardino González
Banco Central del Uruguay	Javier Soto
CEMLA	Jorge San Vicente
	Fernando Sánchez Cuadros

Invited guest:

Banco de España	Antonio Rosas
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AGENDA

1. Committee Report

- a) Results of the questionnaire on the publication of Notes to Financial Statements
- b) Results of the questionnaire on the application in central banks of the International Financial Reporting Standards (IFRS).

2. Agenda of the XI Meeting on Central Bank Accounting and Budget Aspects

3. Future Committee activities

SUBJECTS RAISED

1. Committee Report

a. Publication of the notes to financial statements

The Committee had agreed to follow up on the possible application of the recommendations issued on the Notes to Financial Statements. To this end, the colleagues at the Banco de España (BE) drew up a survey and circulated it among

the accounting areas. The BE sent the survey, complimented with the information available on the central banks' websites and asked for confirmation or ratification of the data.

Of the 30 CBs, it was possible to complete 19 forms with the information available on the central banks' websites; the other 11 CBs were sent blank copies and they were asked to acknowledge them.

Completed: Argentina, Bahamas, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Guyana, Honduras, Jamaica, México, Nicaragua, Peru, Dominican Republic, Trinidad and Tobago and Venezuela.

Blank: Netherlands Antilles, Aruba, Barbados, Eastern Caribbean, Cuba, Ecuador, Haiti, Cayman Islands, Paraguay, Surinam and Uruguay.

Of the 19, 10 sent confirmation (Argentina, Bahamas, Belize, Brazil, Colombia, El Salvador, Guatemala, Jamaica, Mexico and Venezuela) and 2 of the 9 did not report their information on Internet (Ecuador and Uruguay).

In addition to the 12 CBs mentioned in the above paragraph, another 12 were integrated into the results, which even without confirmation, had data available on Internet (Bolivia, Chile, Costa Rica, Guyana, Honduras, Nicaragua, Peru, Dominican Republic, Trinidad and Tobago, Netherlands Antilles, Aruba and Eastern Caribbean.

Consequently, a sample of 24 surveys was available to make the analysis.

Results:

- Regarding the first recommendation (including notes to Financial Statements), as in the survey of 2004, 79% of the CBs publish notes to their financial statements, but 21% have yet to report on the matter, although there are cases in which the information is prepared, without being published. The Committee's recommendation is still that it should be published.
- Second recommendation: If there are explanations and the sources on which the based are quoted, does the quote refer to the sources from which they emanate or the ones that establish the accounting policies and criteria applied? 79% yes; 21% no.
- Also within the second recommendation, are the policies, criteria and assessment rules described? 75% (fully), 4% (partially) and 21% No
- Third recommendation: This consists of a wide variety of information related to the description of each significant item, specific data, reasons for the annual variation, etc. The results obtained do improve in general terms, especially the recommendation on the description of the item regarding its composition and in the explanation of what is done with the distributable result.
- The CBs in general, however, do not explain the causes of the item's variation, if it is relevant, or in the cases of balance sheet and the profit and

loss account. This is the case of gold or other monetary policy loans, which might be due to the fact that, in some aspects, this information could be considered confidential.

- Finally, regarding the fourth recommendation on the structure of the financial statements and the crossed reference systems in the notes, a high percentage of compliance is noted, with more meaningful improvement in the balance sheet than in the profit and loss account.
- The general overview shows that there has been a moderately positive reaction, although there are still difficulties in obtaining data and the degree of improvement is still uneven among central banks; consequently, there should be continued insistence with the countries that have not yet answered the survey, with an opportunity given to those that had their information available after the cut-off to update their information in order to receive the information and present the results in the XI Meeting.

The Banco de España is analyzing the notes of other central banks in other aspects of information disclosure that is published together with the financial statements (e.g., in relation to the risks and provisions, retributions, number of employees, external auditors, etc.) Although this work is being done autonomously by BE to identify the practices regarding this subject in other central banks, if the results are useful, they will be shared with the Committee so that it may decide whether to recommend them for our area of influence.

Within the structure of the new trends of good governance, transparency and accountability, it would seem reasonable for the accounting areas to have a broader point of reference of the meaning of furnishing good information.

CEMLA could improve the information about suitable contacts to channel the consultations and strengthen the 2006 survey.

During his participation in the Board of Governors to be held on October 19, Jairo Contreras could ask the governors to encourage their accountants to attend the consultation sessions.

***b. Application in central banks of the International Financial Reporting Standards (IFRS).
(Verification of the degree of adherence to the International Financial Reporting Standards)***

The first survey made in 2005 was a response to the Committee's need to identify problematic IAS and/or those with a high degree of complexity in their application, and to be able to formulate the technical notes. Based on the first analysis, the Committee prepared the document titled "Assessment of the Application of Accounting standards in Central Banks", which will be presented to the Board of Governors on October 19. Once this objective has been satisfied, the next step is to verify whether there have been any important changes, given the initiative of some central banks to adopt such standards; in addition to more accurately identifying the problems and/or difficulties.

A new survey was therefore made in order to obtain broader information regarding the process of adopting the IFRS in the CBs. Responses were obtained from 13 banks, out of 20 consulted. The survey was prepared by the Banco Central de Brasil and processed by the Banco Central de Chile.

- The analysis of the preliminary results shows that for some subjects, such as financial instruments, the survey was not sufficiently clear and therefore a high degree of difficulty in understanding and responding by CBs was noted, which hindered the gathering and evaluation of the results.
- Due to the above, and in order to present the results in the XI Meeting, it was decided to: i) incorporate the responses of the Caribbean countries that were recently sent the survey; ii) complement some of the responses where there was a degree of difficulty (mostly financial instruments) while taking the financial information published by the central banks as the source and iii) review the tabulation of the responses.

The Brazilian central bank offered, if necessary, to help the Chilean central bank in this activity.

Additionally, the Committee debated on the desirability of increasing training in the accounting area for other employees deployed in the accounting departments. In this respect, the Banco de España offered to analyze the possibility of giving a course on the Recognition, Measurement and Disclosure of financial instruments in Spain and it will soon let the Committee know whether this is possible and what conditions could be offered to encourage the attendance of the area's CBs.

2. XI Meeting on Central Bank Accounting and Budget Aspects

The meeting will be held from October 1 to 3, 2008 in the offices of the Banco Central de la República Argentina, Buenos Aires.

Program:

a. IFRS (Day 1)

- i. Committee Report: CEMLA-BG and Surveys (IAS and FS Notes).
- ii. An invitation will be sent to make a presentation to the World Bank about the convergence of the USGAAP and IASB standards.
- iii. Brazil, Bahamas or another central bank of the Caribbean area that has implemented the IFRS will be invited to make a presentation on the results in the application of the IAS.

b. Costs (Day 2)

A growing need has been perceived to identify the costs of the central bank by activities or functions, even though there is no methodology available that favors their application, it is essential to be able to identify how much each function, service, product, etc., costs, not only to set tariffs on the services supplied by the CB and to be able to measure the efficiency, but also, a costs system could also be used to support the executive levels of the central banks in the management of the public resources they handle.

In order to support this process, it is necessary to understand and analyze the costs structure with reliable and real information to make decisions to improve the process, optimize resources, establish rates, and in general, measure and assess the operation performance or management; information that the traditional systems do not furnish.

This shortfall limits the preparation of administrative budgets that contribute to promoting a more efficient operation. Experience has shown that the most recommendable course is to progress steadily by areas when trying to implement costs systems.

The costs systems provide information not only for accounting and budgeting, but also for the operation and by segments, as well as regarding the cost of the opportunity to make decisions and thus contribute to greater transparency. The central banks must know how much it costs them to do their work, fulfill their missions and provide society with the services its requires.

A costs system is useful in the framework of strategic planning and systematic risk management because it complements the information provided by financial accounting, given that the ends of the latter are different.

Different methodologies may be used; the costs ties, financial accounting, budget, risks and strategic planning.

- A theoretical-analytical paper will be presented that tackles the nature, importance, methodologies, risks, challenges and problems implied and others in which there are national cases. A survey will also be run. The Brazilian central Bank (BCB) will send the survey to members of the Committee to analyze its contents, which will be sent to the central banks at the beginning of 2008.
- Work groups (afternoon). BCB will send a guide proposal.

c. Central banks' operation risks (Day 3).

- General aspects of internal control.

- Operation risk management model in the Banco de España (methodology, categorization, assessment, mitigation, etc.)

d. Presentations of the results of the Work Groups (Day 3)

Methodology:

- The meeting will be held on the basis of full sessions and work groups to analyze the subject of costs. The work groups will present their conclusions and recommendations to the meeting on Friday.
- It is recommended that the speakers limit themselves to 45 minutes for their presentations, and it is suggested that they should not exceed 20 slides in the PowerPoint presentations and the printed documents expanding on the slides must be no more than 15 pages. As an exception, the time set aside for internal control and operation risk, which may require the participation of two persons, could be extended.

3. Future Committee activities

The Committee believes there are 3 issues that might be interesting to work on:

1. IFRS

The IAS and IFRS are dynamic and are undergoing constant change and modification and new standards could appear that substitute current standards or interpretations thereof; consequently, it is necessary to follow up those standards that have implications for the central bank's accounting. All the Committee members who are aware of variations in the IFRS should send remarks to the other members to warn them of possible implications for the central bank's accounting.

Three items have been defined as being important and having an impact on central banks that deserve the attention of the Committee: i) Financial Statements (IAS 1 and IFRS 1), ii) financial instruments and foreign exchange (IAS 21, 32 and 39 and IFRS 7); and iii) provisions and risks IAS 37.

The Technical Notes available could be studied further in order to use them as an alternative accounting criterion. The Committee recommends following the IFRS whenever there are no problems. The Argentinean central bank will prepare the draft and circulate it to its members.

Training: Seminars and courses on financial instruments could be used as a complement to improve the understanding capacities and the application of the standards to the central bank's accounting. Antonio Rosas (Banco de España) will make the consultations in his central bank to consider the possibility of applying

the course on accounting and assessment of financial instruments in central banks.

2. Costs

The Brazilian central bank (BCB) proposes running a survey on the central banks' costs systems that refer to four possible situations:

1. The organization has an implanted costs system
2. The organization is in the process of implementing an implanted costs system
3. The organization does not have an implanted costs system and does not plan one
4. The organization does not have an implanted costs system but is planning to have one.

The survey will be made at the beginning of 2008 and it will be processed by the BCB. The BCB will send the draft of the survey for approval of the text to be sent to the central banks with the call to the meeting and it will also send the guide of the work groups, with seven or eight questions for the Committee to make a choice.

Later on, a course on costs organized by CEMLA could be given (2009).

Based on the results of the XI Meeting and the survey made of costs systems, the work plan will be drawn up for the Committee.

3. Central banks' operation risks

In order to deal with the subject, Antonio Rosas will circulate a document so that the Committee may become aware of the nature and scope of the problem: General aspects of risk and risk management that affect the operation risk (the state of the art, categorization of risks, forms and purposes of measurement). The COSO I and II models should be studied. Additionally, the documents available on the website of the International Operation Risk Group, co-presided by BE, are recommended. The conclusions of the risks seminar held in Madrid will be circulated.

TECHNICAL COORDINATOR: Given the resignation of Carmen Aguilar of the Peruvian central bank from the coordination office for health reasons, the Committee chose Jairo Contreras of the Banco de la República as its technical coordinator.

Next Committee meeting:

The Committee will meet from September 29 to 30, 2008 in the offices of the Banco Central de la República Argentina, Buenos Aires, prior to the XI Meeting on central bank accounting aspects.