

VIII Meeting on Central Bank Accounting and Budgetary Issues

Transparency and dissemination of central bank accounting information

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Transparency in the presentation of financial information

The series of crises which have affected various regions of the world in recent years have given rise to a wide range of efforts aiming either to prevent such crises before they start, resolve them rapidly, or minimize the damage they cause. A multitude of initiatives and ideas have emerged from these efforts, the aim of which being to avoid or at least mitigate the effects of such financial crises.

Of these ideas, one of those for which greatest consensus has been achieved is specifically that the presentation of opaque and unreliable financial information has been a factor in intensifying crises, prolonging them and making them harder to resolve. As a result, numerous initiatives have been undertaken and resources have been set aside by the financial community with the aim of enhancing the transparency with which financial information is presented. This implies achieving greater reliability of the data available, so as to permit crises to be confronted more rigorously, and enabling rapid and effective action to be taken to resolve them.

In order for it to be possible to present reliable and timely information, a common reference needs to be used that is understood by all users of the information. This means that common standards need to be adopted for the preparation and presentation of this information so that those to whom it is addressed are able to understand and use it correctly.

The first part of this paper reviews the possible common reference frameworks for the presentation of accounting information, and focuses on the tasks of the many bodies responsible for issuing accounting standards. Later on, given that these standardization bodies do not consider the specific case of central banks, the paper presents the work of organizations devoted specifically to the presentation of central bank financial statements.

Lastly, the paper also focuses on a specific aspect of cooperation on the dissemination of accounting information through international bodies responsible for compiling statistical information, namely the various standards for the dissemination of these statistical data.

Accounting standardization and harmonization

The need to present information in a form that is comprehensible to the largest possible number of its users is the basis for the application of criteria aiming to harmonize the way in which this information is presented. This is not only the case for financial information, but in any sphere where there is a large quantity of information and a heterogeneous set of users.

The task of interpreting financial information makes it essential for there to be generally understood standards which facilitate the interpretation of the data, and enable comparisons with other sets of data drawn from other sources.

It is clear that the fact that the constant growth in the numbers of users of financial information creates an ever greater need to standardize it. In the case of information used solely within the context of a particular company, it would be sufficient to establish codes firstly enabling the data to be presented correctly, and secondly allowing different users to interpret them correctly.

However, even in this extremely limited context, it would also be necessary to lay down guidelines for both compiling and interpreting the data. If we now move from the context of the individual firm to the global level, the importance of establishing procedures to ensure information is presented in a standard way becomes self evident.

In the case where the set of possible information is limited to the subset of financial information normally dealt with by central banks, a series of relatively recent events have given rise a series of tasks being undertaken with a view to standardizing central bank information.

As mentioned, the profound crises affecting numerous countries over the course of the nineties, which have in turn been multiplied by the contagion effect by which they spread to other countries in their areas of influence, have given fresh impetus to efforts to strengthen the architecture of the international financial system. As a part of this process, international standards have been put in place on the supervision of financial institutions and the various capital markets, with a view to reviewing their stability, and in order to avoid, as far as possible, the various markets being affected by further crises.

Within the ensemble of standardization tasks there is a series of factors which have become the key to this work, specifically the need to increase the transparency of the information that is presented, and to develop and implement internationally recognized standards and codes of good practice.

Developing and adopting standards in key areas equips the authorities with common reference frameworks for the financial sector, thereby allowing them to detect possible difficulties early on, and enhancing the possibility of solving any crises that may be detected.

At this point it is worth pausing a moment to consider the difference between accounting standardization and harmonization. The aim of standardization is to achieve uniformity of accounting rules, whereas the aim of harmonization is that the standards used should allow comparisons to be made. Clearly there are a wide range of possible intermediate positions between these two extremes. The most appropriate thing is perhaps not to achieve total uniformity, particularly not at the worldwide level, but to attain a high degree of comparability between the financial information supplied by different sources.

Bodies responsible for preparing standards

In many countries the task of laying down standards for the presentation of financial information has originated in the principles of mercantile legislation, which deals with certain aspects of the preparation of accounting information. Later on, accounting plans came to be developed which covered a wide range of accounting principles in much more detail. In many countries, tax regulations are another common source of standardization, as a portion of their requirements are often implemented in accounting practice.

Altogether a high degree of standardization within each country has been achieved in the application of these principles. However, their key weakness is the impossibility of applying these standards at the supranational level, which means they do not have the global scope they need if they are to make adequate comparison possible.

In order to enable comparison of this kind, standards need to be issued by international bodies of sufficient standing and which in most cases have a specific role in the standardization arena.

There are numerous bodies responsible for the drafting of standards, but not all of them have the necessary authority for their standards to be cited as a reference framework. The table below lists the main international standards issuing bodies in the accounting field:

Accounting	-International Accounting Standards Board -International Federation of Accountants -Basle Banking Supervision Committee
Auditing	-International Federation of Accountants
Banking Supervision	-Basle Committee for Banking Supervision
Dissemination of Information	-International Monetary Fund
Monetary and Financial transparency	-International Monetary Fund

Payment Systems	-Committee on Payment and Settlement Systems
Security markets	-International Organization of Securities Commissions

The bodies listed above enjoy sufficient authority in their respective fields to serve as a model and point of reference in their sphere of competence.

Thus, in the field of accounting information, the fact that financial statements have been prepared in accordance with the standards laid down by the International Accounting Standards Board serves as a guarantee to users that the information they have has before them has been drawn up using internationally accepted principles, and therefore may be compared with the information provided by other institutions that also use those principles.

General accounting standards-issuing bodies

A key issue for standards-issuing bodies is that they need to be internationally recognized as being the highest authority in the field, or at least have sufficient authority to issue standards whose use is recognized.

In terms of the standardization of accounting information, apart from the standards in use in each individual country, there are two types of body that have recognized standing and their role is similar. These bodies are the International Federation of Accountants (IFAC) and the International Accounting Standards Board (IASB).

The International Federation of Accountants (IFAC) encompasses two boards of overarching importance in terms of accounting related standards. The FASB (Financial Accounting Standards Board) and the IAASB (International Auditing and Assurance Standards Board).

The constitution of the IFAC states its objectives and purpose to be the “the worldwide development and enhancement of an accountancy profession with harmonized standards, able to provide services of consistently high quality in the public interest” and

goes on to state that the IFAC “will support the work of the International Accounting Standards Board”, thus constituting the nexus that brings together both organizations.

The FASB, for its part, is responsible for drafting so-called SFAS (Statements of Financial Accounting Standards), which are the outcome of a discussion process by which financial accounting standards are developed and reports are prepared. As at October 2002 the FASB had issued 147 standards documents, some of which were amendments to, or elaborations upon, previous documents.

The IAASB, on the other hand, is responsible for establishing the principles and standards on which auditing work is based. To this end, it issues the so-called International Standards on Auditing, which are a common reference during auditing work.

The International Accounting Standards Board is another major accounting standards body. It was founded in 1973 by a small group of countries¹ as the International Accounting Standards Committee. In April 2001 it was radically overhauled and renamed the International Accounting Standards Board.

This body has been enormously influential right since its creation, basically due to the fact that it took on the activities of its predecessors in the accounting standards field. The participation of the major accountancy and auditing firms in the former IASC broadened the extent to which its pronouncements were used, particularly due to the fact that that audit firms supported their use by their reference to the use of international accounting standards which forms a part of the auditor’s report.

Also, unlike the IFAC, which establishes much more detailed rules, creating genuine accounting doctrine, the IASC’s rules are the outcome of consensus between the members based on existing practice in several countries. The criticism most frequently levelled against both of these bodies is that their pronouncements are very closely bound up with accounting practice in the English-speaking world, to the exclusion of other types of accounting practices.

¹By representatives of Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom, Ireland and the United States of America.

During the early stages of its operation, as the International Accounting Standards Committee, it issued 41 IASs (International Accounting Standards), which, as we have said, have become common reference standards and their use has spread worldwide. It is undoubtedly the case that their increasingly widespread use has a multiplier effect, resulting in their application by other companies.

The changes recently underway reached culminated in the International Accounting Standards Committee's transformation into the International Accounting Standards Board. One of the Board's first decisions was to rename the International Accounting Standards, such that in the future they would be called International Financial Reporting Standards (IFRS).

The importance of these standards has been enhanced by the European Commission's decision that by 2005 at the latest, all listed companies in the European Union must prepare their consolidated financial statements in accordance with international accounting standards.

To summarize, international accounting practice is governed by three groups of standards. The first group comprises International Accounting Standards, in the case of those issued up until April 2001, and International Financial Reporting Standards thereafter; the second and third groups comprise the Generally Accepted Accounting Principles (GAAP), which are subdivided into those applied in the United States (GAAP US), and those applied in the United Kingdom of Great Britain and Northern Ireland (GAAP UK).

A major step forward towards standardization and harmonization would be to unify all these accounting principles, but there is still a long way to go.

The application of international accounting standards or other types of standards.

One of the problems faced by many institutions is the fact that their national legislations stipulate that their financial statements must be prepared in accordance with

certain standards, which are generally those specific to that country. In some cases, institutions also have to prepare specific financial statements for national tax authorities.

If we add to these the presentation of financial statements prepared in accordance with specific international accounting standards, we are confronted with a large number of financial statements which need to be submitted to different users in different spheres. In most cases this proves to be extremely laborious and can make the task of presenting financial statements extremely difficult. It is also worth noting that companies operating in more than one country with their own standards regulating the presentation of their financial statements need to adopt one or other set of principles.

However, as the use of international standards is becoming increasingly widespread, many national legislations are allowing companies to submit their financial statements solely in accordance with international accounting standards. In fact, one of the most important aspects that all standards bodies are discussing is how to unite the different sets standards in order to produce a single body of standards.

Other bodies issuing standards in the central banking arena

As we have already mentioned at various points in this paper, one of the greatest achievements of accounting standardization is that it allows the comparison of financial statements prepared by different institutions.

In the central banking field the need for standardization is even more important in view of the fact that the accounting standards in each country have not been drawn up with central banks –which are unique institutions in their respective countries– in mind. This makes the international level an appropriate level at which standards applicable to central banks should emerge.

It is precisely the difficulty of finding comparable features in other institutions that has meant that central banks' balance sheets have evolved towards such different models in each country, thus utterly preventing any attempt at comparison.

One of the few opportunities that exists for the use of a model in the accounting standards of central banks is to use the principles laid down by international bodies, in particular those responsible for compiling monetary statistics. Thus, among the standards prepared by the IMF, one is of particular use, namely the “Manual of Monetary and Financial Statistics”, which can serve as a reference framework for the presentation of central banks’ financial statements.

This manual includes recommendations for a number of basic accounting practices, as well as asset and liability valuation principles. However, what is of particular use to central banks is the presentation format of the financial statements, which in a simple way, provide a great deal of information about the functions performed by a central bank.

In this presentation we find:

ASSETS	LIABILITIES
Net foreign assets	Monetary base
Claims on non-residents	Notes and coins in circulation
Liabilities vis-à-vis non-residents	Liabilities vis-à-vis other depositary corporations
	Deposits included in the definition of broad money
	Securities other than shares included in the definition of broad money
Claims on other depositary corporations	Deposits excluded from the definition of broad money
Claims on central government	Securities other than shares excluded from the definition of broad money
Claims on other sectors	Loans
	Trade credit
	Shares and other equity
	Other items (net)

The format given above enables the main activities of the central bank to be clearly distinguished. Thus, for example, we can distinguish foreign assets and liabilities, loans to deposit corporations, claims on central government, and the remainder of assets with other sectors. In the case of liabilities, we find the monetary base, with a series of liabilities arising for different reasons, and the equity of the central bank.

Financial Statements in the European System of Central Banks

One of the many challenges that the European System of Central Banks (ESCB)² had to overcome during its creation was precisely the preparation of a common reference framework for the preparation of accounting information and the manner in which financial statements were to be presented.

The aim at the time was to harmonize the different accounting systems used by each of the European Union central banks so as to create a single set of accounting principles and standard balance sheet. These harmonized standards refer solely to the presentation of information within the SEBC, leaving national central banks free to use whatever accounting methods they prefer internally.

Undertaking this task highlighted sharply the absence of models that could serve as a reference, and it was decided that the strict application of international accounting principles alone would not be advisable in the case of central banks. Although accounting practice in the ESCB follows the IAS recommendations closely, there are nevertheless differences. This is especially so in the case of the accounting treatment of unrealized gains arising in the valuation of asset and liability items.

After numerous studies, a series of basic accounting standards have been approved. In reality what these lay down are the principles on time-period adjustments, the moment at which profits and losses have to be accounted for, and valuation principles. Additionally,

² The ESCB comprises twelve countries: Germany, Austria, Belgium, the Netherlands, Luxembourg, Italy, Spain, Ireland, Portugal, Greece, France and Finland, together with the European Central Bank.

criteria were defined for the treatment of gains and losses due to asset and liability valuations.

Along with these accounting principles a series of standard balance sheets were defined, which vary somewhat depending on the period to which they refer. Their use is obligatory for participants in the ESCB, and the information provided is used for daily reporting to the ECB and forms the basis of the ECB's monetary policy decision-making.

It is highly likely that the task undertaken by the members of the ESCB, without aiming to act as a standardization body for the central banking sphere in general, can nevertheless serve at least as a reference for other central banks, as it provides them with a model used by a large group of central banks which they can compare with their own accounting principles or balance sheet formats.

Codes of good practice

In addition to producing accounting standards, a number of bodies are going a step further and establishing what are known as codes of good practice, or recommended practice, currently in use in a large number of institutions. Codes of this type are a compilation of the best practices of a series of institutions, which serve as a benchmark for the preparation of accounting standards and the presentation of financial statements.

The bodies preparing codes of this type include the International Monetary Fund, which in July 2000 drafted a Code of Good Practice on Transparency in Monetary and Financial Policies, with a view to bolstering the international monetary and financial system.

This Code includes numerous recommendations applicable to central banks, in particular regarding the dissemination of monetary and exchange rate policy targets, and other recommendations on dissemination of the relationship between the government and central bank, or the central bank and the rest of the economy.

Of the good practice on transparency listed in the document, those of particular importance for accounting include:³

“1.2 The institutional relationship between monetary and fiscal operations should be clearly defined.

“1.3 Agency roles performed by the central bank on behalf of the government should be clearly defined.

3.2 The central bank should publicly disclose its balance sheet on a preannounced schedule and, after a predetermined interval, publicly disclose selected information on its aggregate market transactions.

4.2 The central bank should publicly disclose audited financial statements of its operations on a preannounced schedule.

4.3 Information on the expenses and revenues in operating the central bank should be publicly disclosed annually.”

Obligatory or voluntary nature of standards

The mere existence of standards that are in frequent use is usually the strongest reason for the effectiveness of their application. The fact that these standards are the reference framework which can be used as a support for the presentation of financial statements is sufficient justification for their use. In general it is not necessary for them to be obligatory, as the advantages deriving from their use make it unnecessary for them to be so, and the institution can be left free to use them or not.

A further important issue regarding the use of international standards is whether to apply some or all of a set of standards. In general, the legislation and status of accounting standards in each country makes the use of certain parts advisable and other parts not.

³ Complementary document to the Code of Good Practice on Transparency in Monetary and Financial Policy. Appendix 1.

Although the aim is the general application of all the accounting standards, it is perhaps best to approach this objective gradually, and not by means of an “all or nothing” effort. Therefore, the implementation of the various requirements must be a gradual process, insofar as is possible.

However, this process of phased adaptation to standards can come into conflict with the reports submitted by auditors, whose task is to certify that the accounts they have examined comply with certain specific standards rather than with a heterogeneous set of standards.

Users of central bank accounting information

The accounting information produced by central banks has a variety of different users. In a short space of time computer systems have enabled us to go from a situation where information could only be obtained at infrequent intervals and was of use only to bank management for internal supervision purposes, to one where information is requested from different spheres and at times with different parameters, which often implies that it needs to be prepared according to criteria which are at times difficult to reconcile.

The users of this information can be subdivided into three main groups. Firstly, there are the internal users at the central bank itself; secondly, the financial community, including international financial organizations, and finally, a heterogeneous set of users, including the general public and government departments and bodies.

Each of these main groups of users demands information with particular characteristics, and in many cases these characteristics are mutually incompatible. Furthermore, even within a single group of users, different information may be asked for. For example, some of the internal users of the central bank’s information may require information in historic terms, other in terms of market prices, and other in terms of flows. And all this information needs to be obtained from the source of accounting data and to be supplied to the different users in all cases from accounting information.

As mentioned, obtaining accounting data in virtual real time has made it possible for the accounts to play a key role in the central bank management. Ten or fifteen years ago, financial statements were produced through a laborious process of accounting and balance sheet compilation, which from the management point of view was only useful as a part of internal control and safeguarding of assets, or at most, as a means of determining the profit or loss on the year.

Today, the time taken to prepare financial statements has been cut to almost nothing, and the possibilities offered by computer systems make presenting financial statements in different formats with minimum effort a possibility. For this reason, accounting data should play a key role in the daily management of central banks.

However, accounts departments should not only devote their efforts to obtaining financial statements rapidly, but also ensure that these statements are reliable and offer the information the various different types of user require.

The choice between confidentiality and transparency

Until quite recently central banks' activities were only a little short of strictly confidential. Loans to the government, loans to financial institutions, or the positions held in foreign currency were considered to be top secret data. And that was simply in overall figures. It goes without saying that no information at all was available about the types of investment or the currencies involved.

Today, however, the international financial community is convinced that greater transparency in the execution of operations is linked to greater solidity of those operations and that it reinforces the measures taken. It is for this reason that measures leading to an increase in the transparency with which decision are taken is being backed from a wide range of forums.

This transparency needs to be characterized not only by disclosing the measures taken, but also by stating why these measures were taken and not others.

In many occasions, the transparent operation of central banks, at least originally, is directly related to their independence. There is therefore a direct correspondence between them, and a greater degree of independence entails a greater degree of transparency in decision making.

Notwithstanding the foregoing however, the strategic position of central banks in the economies of their respective countries can serve as a justification for fact that that some operations are not publicly disclosed, at least at the time they are undertaken.

These operations, in general, are usually related with the management of their reserve positions, particularly if these positions involve derivatives –futures, swaps, repos– and which are therefore positions entailing greater risk than is customary for central banks. In such cases, central banks can disclose this information in their annual report, when the positions are no longer open and the risk has therefore been eliminated.

The transparency of financial statements

Central banks have many specific features, and one such feature is that they are unique in their respective countries. This situation has led to their preparing balance sheets along lines which make them impossible to compare with those of any other institution. In this process of preparing standard balance sheets, central banks have taken an eclectic mixture of models, without there being a reference framework towards which they could evolve.

In the same way, the central banks' accounting departments have prepared financial statements that aim to unite classical accounting theory with the situation of central banks. In accordance with these principles, assets are grouped according to their availability and liabilities according to their maturities, without taking into account the fact that this grouping makes it impossible to offer an overview of the operations carried out by the central bank.

In contrast to this approach to central bank accounting, there is trend towards preparing financial statements in such a way as to give a faithful reflection of the functions performed by the central bank.

Traditionally, central banks usually perform a series of operations, including the management of foreign exchange reserves, lending to the government, lending to financial institutions, issuance of bank notes, and in some cases coinage, and maintenance of the country's positions with international financial institutions, such as the IMF, etc.

The transparency of the process of preparing these financial statements by a central bank resides precisely in all these operations being clearly identifiable in the central bank's financial statements.

The main elements of central banks' financial statements

The management of a central bank requires timely information about the bank's position with regard to the different operations it performs. In order to be able to distinguish these operations in financial statements it is necessary to consider two fundamental elements in their preparation. These elements are the place of residence and the sector to which the debtor or creditor belongs.

Bearing these factors in mind, i.e. residence and sector, it is possible to prepare a balance sheet that makes it extremely easy to distinguish the various different functions performed by a central bank.

Classification by place of residence makes it possible to determine whether the variations in the accounts affected have an impact on the national economy or not. For example, receiving payment of the coupon on a United States government bond in US dollars will have an effect on the bank's profit and loss account and on its foreign exchange position accounts, but will have no impact whatsoever on the dilatation of the national economy.

The following classification, in terms of the economic sector to which debtors and creditors belong, will in turn make it possible to distinguish what economic sector the operations performed affect. In this way, it will be possible to distinguish the banking sector, government, and other types of institution, etc.

Considering this dual classification in the preparation of financial statements, it will be possible to provide a considerable quantity of information of great value to the management of central banks, and therefore allow the different functions carried out by the central bank to be isolated with total clarity.

Disclosure of accounting data

It is common practice for central banks to publish their balance sheets in certain national newspapers, or at least in the bank's statistical bulletin, so that they are accessible to a wide range of users. At present, moreover, practically all central banks throughout the world include their financial statements on their web pages, and in some cases they also publish their main accounting standards there.

In addition to the publication of financial statements, at present another important publication is the so-called Data Dissemination Standards laid down by the International Monetary Fund. The IMF uses the review of standards of this kind to evaluate the degree of transparency and dissemination of data by the organization's member countries.

There are two different standards, the first, created in March 1996, is known as the SDDS (Special Data Dissemination Standard). Its aim is to guide countries that have, or might seek, access to international financial markets, in the provision of their economic and financial data to the public. The initiative currently has 50 member countries.

Participation in this standard is voluntary, but once accepted there are a series of commitments. These commitments are classified under three headings; the data, including its coverage, frequency, time of publication; access to the data by the public and integrity of distribution; and finally, the quality of the published data.

A total of 18 different types of data are published, including data on the real, fiscal, financial and external sectors of the economy. In the case of central banks, many of the data asked for already appear on their financial statements, such as for example the monetary base or the foreign exchange reserves position.

The second standard is the so-called GDGS (General Data Dissemination System), which was created in December 1997 and is intended to help countries develop solid statistical systems that can be used as the basis for greater dissemination of their data. In general this standard requires fulfilment of a series of practices considered appropriate for the completion of the various different statistics.

The type of data asked for is similar in both standards, but the SDDS is more demanding. The GDGS, in addition to strictly economic data, also asks for socio-demographic data such as that relating to the population, health, education, etc.