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**RECOMMENDATION FOR THE HARMONIZATION OF NOTES TO THE
ANNUAL FINANCIAL STATEMENTS**

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Compliance with the objectives set for central banks requires that these institutions enjoy a sufficiently high degree of credibility among the economic agents, the market and society in general. The process of reaching such credibility will, in turn, be strengthened if the central banks maintain an adequate policy of transparency by furnishing society with sufficient information to correctly understand the activity. Part of this information is reflected in their financial statements, which compile, in a simplified manner, the group of their activities.

Understanding is a key element in financial statements; without this element, they cannot be subject to analysis and comparison and this element is furnished in the Notes to the annual accounts. This information is what permits the correct understanding of the data that appear in the financial statements.

It is precisely this conviction that the information furnished in the Notes is a key to understanding such notes that has led them to be considered as a basic piece in the tangle of different generally-accepted accounting standards, which notably include the International Accounting Standards (IAS/IFRS); as well as the recommendations made by international organizations and academic sectors.

The CEMLA Committee on Accounting and Budgeting Aspects, which shares the above-mentioned criteria, has been adopting diverse initiatives to improve the information that the Central Banks of the Latin American and Caribbean Area attach to their financial statements. As a result of such initiatives, in the X Meeting held in Brazil in September 2006, a proposal was presented for the harmonization of the Notes that was only supported by the members attending such Meeting and the Committee was given the task of formalizing such proposal as a Recommendation for all the central banks of the area.

Furthermore, the Committee was also asked to follow up such Recommendation and to report to the XI Meeting on the degree of compliance observed, and to take the final steps to make progress along the path taken.

As a consequence of all the above, the following Recommendations are made and the central banks of the Area are encouraged to adopt precise measures in order to comply with them.

FIRST. The annual financial statements must be accompanied by narrative descriptions that permit the correct understanding of the statements. These narrative descriptions shall include, at least, the accounting bases and criteria used in the preparation of the statements, as well as complementary explanations to all of the important items.

Throughout this Recommendation, “Notes” shall mean the set of narrative descriptions mentioned, and “note” shall mean each concrete narrative description referring to one or more specific items of the financial statement.

SECOND. The Notes to the annual financial statements must firstly report the bases used in their preparation and, secondly, the specific accounting policies and criteria applied.

The bases used are the sources (legislative texts, organization bylaws, national provisions, etc.) from which the accounting policies and criteria that have been applied emanate, or where they are established.

Likewise, the Notes must contain sufficient descriptions of the policies, accounting criteria and assessment standards used in drawing up the annual financial statements. “Sufficient descriptions” shall be understood as those that make it possible to have a reasonable understanding of the accounting criteria and assessment standards used.

THIRD. Each explanatory note shall contain: a) a description of the meaning of the item being referred to; b) detailed information of its composition and, c) an explanation of the causes of its variation in the period.

The purpose of the description of the meaning of the item is to facilitate knowledge of its nature, and thus avoid possible confusion about its real meaning and scope.

In reference to the composition, in each note there must be an explanation of both the most important component items, and the following whenever possible:

- Exchange rate used in assessing the currencies at the end of the year.
- Currencies in which assets and liabilities are invested.
- Gold stocks, in troy ounces or in metric tons, at the price applied at the end-of-year assessment.
- IMF participation fee.
- Breakdown by maturity of assets/liabilities.
- Percentage return on assets and remuneration of liabilities.
- Explanation of various public sector securities included in the balance.
- Explanation of distributable result.

Finally, in each note there must also be an explanation of the causes of variation of the item compared with the previous fiscal period, if this is relevant.

FOURTH. The annual financial statements will be presented in a harmonized format and with crossed references that make it possible to unmistakably identify the items with their explanatory notes.

The “harmonized format” shall be understood as that in which all the data of the closing of the fiscal period and those of the previous period are shown.

The system of crossed references consists of allocating a reference number to each one of the important items of the financial statements, and each explanatory note shall be preceded by the number assigned to the item in the corresponding financial statement. There must therefore be explanatory notes for all of the items that have been referenced in the financial statements.

FIFTH. This Recommendation should be applied to the annual financial statements for the 2006 fiscal period. In order to facilitate application of the above, the following example is attached.

GUIDE - ANNUAL ACCOUNTS

I. INTRODUCTION OR SIMILAR

This contains the information and comments that each central bank wants to clarify (e.g. Bank's objectives, accounts approval procedure; whether submitted to external audits, etc.). This introduction is free and no recommendations are made; it is up to the central banks to establish the contents.

II. FINANCIAL STATEMENTS

That must be made with the following structure (Fourth Recommendation).

BANK X BALANCE at ... December 2006			
Asset	Note number	2006	2005
1. Gold	1	xxx	xxx
2. Assets held with IMF	2	xxx	xxx
ETC.			

III. ACCOUNTING POLICIES AND ASSESSMENT CRITERIA

Mention must be made of the sources (legislative texts, organization bylaws, national provisions, etc.) from which the accounting policies and criteria emanate, as well as internal accounting criteria and assessment standards used in drawing up the financial statements (Second Recommendation).

IV. EXPLANATORY NOTES

The items referenced in the financial statements must contain an explanatory note that contains (Third Recommendation):

- . Description of item
- . Composition of item and application data established in the second paragraph of the Third Recommendation.
- . Explanation of the variations compared with the previous year, if such variation is significant.