

**BOOK - ENTRIES RECOMMENDATIONS FOR
CENTRAL BANKING OPERATIONS**

**MAIN RESULTS FROM THE MEETINGS ON THE CENTRAL BANKING
ACCOUNTING AND BUDGETARY ASPECTS.**

I.- MOTIVATION

The special operation of central banks lead to the fact that the general accepted accounting practices, in some cases, are not completely applied. From that, the importance of deeply covering the accounting issue of the central banks, in order to obtain a general standard and thus provide the real as well as the predictive information required by the users. (*ANNEX I*).

Likewise, the reality of finding a central bank per country it was an inconvenient in the past not having the information sources over identical budgetary accounting problems in the central bank.

Therefore, in order to gain the experience of the different situations that each expert on the matter underwent at his country, it was very important to generate the discussion environment of the above-mentioned issues.

The use of the specific meetings allowed for the first contact on the experience exchange and resulted in the collection of the first recommendations about accounting principles at the central banking as well as other issues that we will analyze in a further detail on the next issue.

II.- RESULTS

The I Meeting on Accounting and Budgetary Issues for the Central Bank was held at Quito, Ecuador in 1994 and sponsored by the Banco Central del Ecuador. On this start the experience exchange was done as well as the recognition of similar problems faced on every country.

Once the most problematic and important issues were defined, an agenda was created to cover on the following meeting, which was held in Montevideo – Uruguay in 1995. The most important issues include:

- International Reserves Appraisal. (*ANNEX II*)
- International Reserves Operation. (*ANNEX II*).
- Activities in the Budgetary accounting area of the Central Bank. (*ANNEX III*).
- Bills and Coins Issuance. (*ANNEX IV*).
- And others.

At the Uruguay meeting, the first recommendations on the budgetary accounting area structure of the central bank were collected. (*ANNEX III*).

The III Meeting took place in Montego Bay – Jamaica, with the Central Bank of Jamaica hosting the event. At this event, in addition to starting dealing with new

issues such as Planning and Budget, the first conclusions about the revaluation of foreign currency holdings and the effects on the income distribution were achieved, and the presentation of financial statements.

It was at the IV Meeting at Cartagena de Indias – Colombia, hosted by Banco de la Republica in 1997, when the Committee on Accounting and Budgetary Aspects was created, in order to deeply cover and enable the collection of the results expected over the topic.

Additionally issues such as Data Development for the Cost Measurement of the Monetary Policy were covered in advanced as well as other operations from the International Reserves.

All the previously explained evolution, lead to the Meeting at Mexico, D.F. with the CEMLA as the host, and to consider the first collection of recommendations about the accounting criteria application on the central bank. Thus, covering general application issues, financial statement presentations, complementary financial statements and the Appraisal of the International Reserves on general recommendations as well as the first specific operations.

III.- FUTURE ACTIVITIES

Using the experience developed at the previous meetings and taking advantage of the dynamics that allow for the Committee participation, for the rest of the year and the following year, the activities below are expected to develop:

International Reserves Operations, continuing the development of accounting schemes and recommendations for the financial statements presentations to complete the issued recommendation collection.

Currency Registration and Control, pass on to all central banks of the region the base documentation collected by the Committee including the answers received when developing the set of recommendations on the subject.

Develope the following issues:

Budgetary Process at the Central Bank.

Adequate Level of the Central Bank Wealth.

Development of information on financial statements.

For the case of the International Reserves new operations and the currency Registration and Control, we expect to present the recommendations, to be approved by the entire meeting, at the VI Meeting. For this meeting, the Central Bank of Trinidad y Tobago offered to host the event to be held at Port of Spain in 1999.

The other mentioned issues will be covered expecting to reach the appropriate conclusions.

**MAIN RESULTS FROM THE III, IV AND V MEETINGS ON
CENTRAL BANKING ACCOUNTING AND BUDGETARY
ASPECTS**

ANNEX I

**ELEMENTS DETERMINING THE UNIQUE NATURE OF THE
CENTRAL BANK**

a) Purpose

The purpose of a central bank is not maximizing benefits in terms of incomes and expenses; the objective is better referred to an ethereal concept related to the social welfare.

In fact, the task of a central bank is to look after the proper roll out of the monetary and credit conditions, to take part in the exchange policy, in order to support the currency stability, consequently promoting a balanced economic development.

This makes a central bank to stand out as a unique financial entitie, therefore the information needs and the effort evaluation should be based on the specific content of the bank.

Therefore, the indicators preparation and analysis that allow to define if the bank's macroeconomics role as central bank followed the guidelines established by the law, and to take into consideration the operations benefit or risk for the economy in general.

Such assumptions may be made not fearing to make a mistake, because if we pay attention to the Constituent Letters of the Central Banks we will find on them different writings, the fundamental mission for the central banking "is to preserve the currency value".

Likewise, this mission is joined by the participation to fulfill the exchange policy and the maintenance of the payment instruments.

These missions should be met through the activities defined on the Constituent Letters. From such group we could identify those found in all of the letters and which are unique to Central Banks, which are:

- 1) Issue bills and coins.
- 2) Manage International Reserves.
- 3) Last Instance MoneyLender for the Financial System.
- 4) Financial Agent for the Government.

As previously stated, these are not the only activities of a Central Bank, but we will find them on every Constituent Letter for a Central Bank and not for any other kind of organization.

We consider important having very precisely defined the differences that make the purpose of a Central Bank, as this will help us defining the features of the information to issue and the types of analysis to perform in order to see their performance.

b) Independence of Activities

Different from other companies where the operations independence is referred to the financial capacity to face their obligations and start new projects, a central bank's independence is linked to formal aspects such as:

- a) Amount of representatives from the government on the Directory.
- b) Type of relationships between the Bank's executive and the General Government.
- c) Regulations governing the type of financing from the Institution to the government.

c) Capital or Wealth

There is another strictly financial aspect that supports the differentiation of a central bank, and it refers to the role of the capital or wealth.

In the case of a commercial bank or other type of company, the capital is defined by the amount that shareholders directly invest plus the accumulation as retained gains less the year losses, as such capital is:

- 1.- An initial fund offer to cover a cost increase.
- 2.- The payment commitment by the shareholder in order to attract new resources.
- 3.- An approximation to the market /value share that such bank or company would have at certain moment.

Capital defined as such does not play an important role for the financial position of a central bank because:

- 1.- Has the advantage of covering growing expenses with a low cost financing (issuing more bills and coins).
- 2.- Has the last instance government's support.
- 3.- A central bank has elements that positively as well as negatively alter its "value" or position as financial entitie.

Positively, the fact of having the money issuance monopoly or having a low financing cost and the capacity of creating the demand for its own liabilities.

They would be negatively represented by the commitment of performing semi fiscal operations (financing the government to lower rates than those for the market, rescue of some insolvent financial institutions, exchange operations and subsidiary interest rates, etc.), and by operations that reflect a commitment pre-established by the government such as keeping an exchange rate or an interest rate level.

The capital from a central bank does not explain the relative weight of the elements (positive and negative) previously pointed out, in fact, many central banks may operate with very little capital.

Some central banks are an example of all this, that in spite of having little capital, their performance is considered really effective.

And on the other hand, there are central banks with high capital and with inflationary problems affecting the currency value.

With this we could state that it is not the capital size but the accounting structure and the government performance what determine the financial position of a central bank.

d) *STRUCTURE OF THE FINANCIAL STATEMENTS*

The Structure of the assets and liabilities from a central bank are different form the commercial bank or other company. In this sense there are:

- 1.- On the Assets and liabilities, External Assets and Liabilities, which jointly analyzed represent the monetary title of the Net International Reserves.
- 2.- On the Asset, Loans or Government instruments that represent the monetary title of the Financing for the Government.

- 3.- On the Asset, Loans, Payment in Advance or Rediscounts to Financial Institutions of the Country that represent the monetary title Financing for the Financial System.
- 4.- On the Liability, Bills and Coins Issued and deposited at the Financial Entities, which represent the monetary title Monetary Base.

These macroeconomics components only exist on the financial statements of central banks.

These unique characteristics are involved in all the financial statements of central banks either on capital or on the results.

INFORMATION NEEDS FOR THE CENTRAL BANKING ACCORDING TO SPECIFIC CHARACTERISTICS

a) Particular Feature of the information needs

As explained on the previous items, a central bank has particular features, on its objectives, as well as on its performance in an economy, therefore this allows us to determine the information needs from a particular view of the topic.

Particularly, on the previous issue we defined certain titles from the financial statement of a central bank and intentionally denominated as monetary titles, because this is the way the economic experts know them.

This information arises from central banks Accounting, but usually these names are not common to the accounting practice, because the Generally Accepted Accounting Principle "exposition" was and is always defined for use on companies with microeconomics characteristics and not to defined macroeconomics titles, such as those from a central bank.

For companies or entities with macroeconomics features , the exposition of Assets and Liabilities on their Financial Statements prioritize the assets and liabilities quality according to its performance.

Therefore we find titles, for example, Availability, Short and Long Term Investment, Open and Not Open Credits, etc. If a central bank information was prepared achieving these definitions we would obtain very different results from those expected.

This is because this way of presenting information is very useful for a company, because it allows us to see the capital situation of the same at a given moment, and would be helpful for a company decision making.

In the particular case of the central bank adding this information, on one hand will not tell us the state of the same, because this may not be defined. And on the other hand, it would hide the economic information wanted for analysis by the economic agents for the decision making on the economy.

When analyzing a financial statement from a particular company, we attempt to obtain information for decision making as to the company.

For example, in the case of an investor, whether he decides to buy or not shares of the same. Or in the case of a company manager, to decide whether to widen the product line or defining a customers financing policy, etc.

However, the analysis of the financial statements from a central bank, is not intended for a decision making of the bank itself, but to take the information of the economic indicators that allow for the analysis of the economic environment and protection to operate the business.

Thus, it is necessary to treat this PCGA under the view of central banks information needs.

We are not suggesting changing or creating a new principle, but to achieve the accounting professional experience exchange in this type of institutions, the interpretation and thus then being able to uniformly apply it on every central bank in the region.

In this same way, when analyzing the accounting registrations for supporting the institutional information, we find the use of other PCGA, for example “appraisal”, “accrued” or “collected” and “performed”, which deserve a special treatment, or better said, under the specific view of a central bank.

We will make a brief comment on each one of them according to its importance for the information preparation and analysis.

1.- “Appraisal”.

The accounting technique allows us to decide from different choices of the valuation criteria, which include:

- . First in – First out (FIFO)
- . Last in – First Out (LIFO)
- . Direct Average Price
- . Weighted Average Price
- . Market Value or Reposition Cost

As we can see the technique allows us to select alternatives all fulfilling the PCGA, but the impact on the financial statements is as diverse as the amount of methods we have.

If we want to improve the financial statements reading for the organization external and internal agents, we should decide according to the experience, which of these criteria improves the interpretation of a central bank financial statements according to specific features.

We must already be careful, because a quality improvement on the presentation of capital statements could impact the result statement of the same entity and confuse the reader, according to the applied criteria.

For example, if we decide to use the appraisal criterion at the market price, the capital statement analysis will be much simpler, because it lets us to know and quantify external and other assets and liabilities on a easier way given the knowledge of the market prices.

But in the same case, at the result statement analysis mistakes may be made if the truly realized results are not well explained and differentiated from those which are only for appraisal purposes.

Likewise, if for example the First In – First out (FIFO) criterion is selected, the capital analysis will have the appraised stocks at the last purchase prices and will difficult the analysis given the diversity and the different moments in which was performed.

On the other hand, in this same example, the result statement will allow to easily appreciate the results perceived so far.

2.- “Collected” or “Accrued”.

Likewise, when we make reference of the impact of the accounting information on the result statement, we face the dilemma of defining the criterion to impact results on an accounting manner.

In this case the accounting practice offers two differential alternatives:

- . Collected or
- . Accrued.

If we decide for the use of the collected criterion, we are reflecting in an accounting manner the operation with a conservative criterion, earnings when realized and losses when known.

Therefore this allows for the analysis of the period activities result, because the operations accruing interests are not reflected on the result frame of that period because they had not been collected yet.

On the other hand, using this method enables the analysis of “cashiers” fluctuations from a central bank (International Reserves and Monetary Base), because accounting registrations will have a direct cash effect.

If on the contrary, when decide for the accrued criterion, the effect over the accounting information will be exactly the opposite of the collected.

This will allow for easily carrying out an period statement analysis, because the result statement will reflect losses and gains of the period in question, because we will register them as they are performed, whether collected or not.

And on the contrary, when analyzing the International Reserve and Monetary Base flows, those results with cash effect will have to be considered.

3.- “Performed”.

This principle is extraordinary important, because in most central bank Constituent Letters, the profits distribution is defined from the phrase “...settled and performed profits”, this means, that period profit distribution will be done over settled and performed profits.

Nevertheless, according to that expressed on the document first issues, we define certain characteristics of a central bank, and in this case we are going to go back over two:

- . Issuing bills and coins.
- . International Reserves Administrator.

This is reflected on the financial statement, on one hand on the International Reserves and on the other on the Monetary Base.

The first is a net title, usually from the asset, but the second is a title from the liability. Therefore, the principle carried out may be given by the increase on the asset (this is similar to companies), increasing the International Reserves or reducing assets (this is not similar to companies) this is reducing the Monetary Base.

The particularity from this is that the central bank on its Monetary Base has a fund-generating element, but it is a liability and may be used as much as the monetary demand allows for it. Therefore, developing the performed principle application for the profit distribution should include a possible monetary expansion analysis.

Specifically for the accounting information preparation, it should allow for the methods application, providing data with these specifications for decision making.

b) Requirements for macroeconomics indicators and complementary financial statements

Given the nature of the objective for which it was created, and different from the commercial bank, a central bank operation evaluation should additionally take into consideration elements at a “macro” level, which are not from a direct interference but are useful to validate the interference in the economy, thus:

- 1.- The evolution of the money demand.
As it determines the central bank capacity for a low cost financing.
- 2.- The government instruments yield at the central bank power versus market interest rate.
Which defines the bank capacity to perform monetary policy through open market operations with public titles.
- 3.- The government financial position.
Which defines the type of backup the monetary authority has.
- 4.- The congruency of the results and policy objectives.
This is, planned contraction (expansion) of settlement and gains (loses) from the central bank.
- 5.- The economy commercial nature as to the net importing or exporting condition.
To know if the bank is exposed to constant injections or contractions of the monetary offer.
- 6.- Depreciation expectations.
Because they define the economic agents starting to demand assets on the central bank power (currency) in preference to its liability (monetary base). Such expectations depend upon the inflation level and the international reserve level.

Summarizing, the unique character of a central bank is determined by the objective’s particular features for which it was created, the vulnerability of the results before the government action and the accounting structure as to the assets and liabilities nature that comprise the general balance.

Likewise, different from any other institution, the success of a central bank financial action is determined more by the economic context than by the accounting results. In this sense, the monetary authority operations may be considered favorable if its accounting results are translated into liquidity injections on an economic sustained growth with price stability or alternatively, on monetary contraction for the case of economy weakness and a price general increase.

According to the previous paragraphs, we support the need of working over this particular financial statements for the central banking given its characteristics, not replacing the traditional but complementing with macroeconomics information from accounting information.

For example, a financial statement analysis is being developed wrongly called central banking cash flow, because the same is a financial statement from accounting information explaining the expansion and contraction factors of the Monetary Base and it is not exactly a traditional cash flow.

In the same way we understand the lack of developing specific financial indicators for the central banks' financial statements analysis.

ANNEX II

CENTRAL BANKING ACCOUNTING AND BUDGETARY CRITERIA

- I.- Introduction

- II.- First Collection of Recommendation on the Central Banking Accounting Principles Application
 - a) General Recommendations
 - b) Specific Recommendations
 - b.1. Presentation of financial statements
 - b.1.1 General requirements related to its preparation
 - b.1.2 General requirements related to its exposure
 - b.2 Cash flow preparation and presentation
 - b.3 International reserves appraisal
 - b.3.1 General Aspects
 - b.3.2 Specific Aspects
 - Currency in advanced and future contracts
 - Currency options contracts
 - Currency SWAPS contracts

CENTRAL BANKING ACCOUNTING AND BUDGETARY CRITERIA

I.- Introduction

On the IV Meeting on the Central Banking Accounting And Budgetary Aspects, held at Cartagena de Indias, Colombia, with the Banco de la Republica hosting the event, the Committee on Accounting and Budgetary Aspects was created. The committee representation is from the central banks of Chile, Ecuador, Mexico, Dominican Republic and Colombia, the last country presided the meeting.

The committee mission and the work plan for its acquisition are detailed as follows:

The Committee basic mission is to attend issues related to the central banking accounting and budgetary issues. Particularly: analyze, prepare and issue recommendations over the standards application on the matter; analyze training needs, promote disclosure of recommendations and standards progress; take part in the approximation to universities, international organizations and professional organizations.

For the mission achievement the following Work Plan was created identifying three topics to develop: (1) accounting criteria: (2) accounting relationship to other agents; and (3) other topics specially related to the budgetary topic.

1.- Criteria Applicable to the Central Banking Operations

These criteria include appraisal, registration and presentation rules for central banks' Financial Statements. For this, titles from the general balance as well as the result statement were identified, on which such accounting criteria will be developed.

2.- Accounting Relationship with Other Agents

This aspect throws forward the accounting mission, which is that of supplying quantitative, convenient and flexible information, to be the foundation for the decision making by different users (internal and external). In fact, decisions at an internal level mainly refer to monetary, exchange and credit policies, to the payment system and other requiring the central banks substantive areas. As to the external users, it is clear that the Government information needs, from bank institutions, international organizations, universities and the general public is essential for its own activities.

3.- Other topics

Specially including the process from the Current Expense and Physical Investment Budget, covering planing, authorization, execution, control and financing phases.

II.- First Collection of Recommendation on the Central Banking Accounting Principles Application

Accomplishing its Work Plan and by the Cemla Government Meeting mandate, from early 1998, the Committee was devoted to the task of preparing the Collection of Recommendations on the Central Banking Accounting Principles Application.

The mentioned work result is presented as follows. It is important to point out that currently the Committee continues working on this scheme in order to widen progressively this first document.

a) *General Recommendations*

1) The Generally Accepted Accounting Principles are the base for the Accounting Statements preparation. Therefore, a continuous application is recommended, considering the particular in force legislation of every country as well as, dispositions on the matter given by the respective competent professional organization.

2) Considering the fact that Central Banks issue other reports following objectives different from those to the traditional financial statements, for user required that eventually may have opposite interests, the recommendation is:
These reports also should be prepared over an accounting base, considering its institutional character as well as the reliability it provides.

3) Before the different legal schemes governing the countries that in some cases may be opposite to the Generally Accepted Accounting Principles, it is recommended that Accounting emphasizes the events economic content. Similarly it is desired that such differences de replaced by notes to the Financial Statements.

4) The concepts of the basic accounting structure are principles, particular criteria and the application prudential criteria over particular criteria defined as follows:

Principles

Accounting Principles are basic concepts setting up the Bank's limits and identification, the operation quantification basis and presentation by means of Financial Statements.

Particular Criteria

Specification of the concepts in Financial Statements divided into Valuation and Accounting Registration Criteria and Financial Statements presentation rules, which define the way of properly include and disclose every concept on such statements.

Application Prudential Criteria for Particular Rules

The particular principles and criteria are not automatically applied guides, so it is necessary to use the individual judgment from who applies them in order to obtain the financial information as close as possible to that established on the previously mentioned issues.

b) Particular Recommendations

Regarding:

b.1 FINANCIAL STATEMENTS PRESENTATION

b.1.1 General Requirements related to its preparation:

1. Financial Statements should clearly reflect the Bank's nature, function and objective. They should be developed based on the generally accepted accounting principles and if possible, should adopt the international accounting standards, as long as there is not a conflict with the laws and statutes governing its operations.
2. Financial statements should be consistent from one period to the other.
3. Financial statements should provide the users with the information on the economic and financial situation to enable decision making and the economic analysis.

b.1.2 General Requirements regarding its exposure:

1. Financial statements should have, just as recommended by all professional instances devoted to accounting issues, transparent, and reliable and therefore, irreplaceable information. It should be comprehensible for all users use.
2. Financial statement main lines should easily identify the transactions on which a Central Bank develops its activities. Grouped into: international operations, operations with the government or with the financial system, as well as emphasizing on the monetary aggregates (monetary circulation and banks' deposits). Everything not leaving out the particular operations every country performs. As a theoretic example, a general balance model is presented. **Scheme 1.**
3. General Balance lines, usually called as "Others", should be limited to individually little significant concepts or to the transitory operation registration, trying that its definite classification be performed over a brief period, being able to have at all times the details of its composition.

SCHEME 1

ASSET

International Reserves
Credits to the Government.
Governmental Values.
Credit to Financial Intermediaries.
Donations to international organizations
Fixed Assets
Other

LIABILITY

Monetary Base
Deposits from the Government
Deposits from the Monetary Regulation
Deposits from Other Financial Intermediaries
Deposits from International Organizations
Financial Liabilities/Obligations
Others

CAPITAL, RESERVES AND RESULTS

b.2 CASH FLOW PREPARATION AND PRESENTATION

In general terms, the cash flow statement presentation for a Central Bank should include all movements from transactions affecting the monetary base and the net international reserves. This is, that it would be convenient to create the following reports:

- a) Monetary Base Variation Reports,
- b) Net International Reserves Variations Report, y
- c) Consolidated Variations Report, expressed in national currency.

The content of the previously mentioned reports should be consistent and keep relation with the concepts expressed on the rest of the basic financial statements, as well as be presented with an opening degree suitable for the different users needs.

b.3 INTERNATIONAL RESERVES APPRAISAL

b.3.1 General Aspects

- International Reserves should be appraised at the market prices.

For the accounting registration of the market price fluctuation and the exchange differentials which are the result of the revaluation, the use of two methods is considered viable to know:

1. Direct registration on a capital reserve account.
2. Registration on the result accounts, clearly identifying its “Not for distribution” nature.
 - Determining the distribution or not of the appraisal effects would finally correspond to the Government Board from each central bank, following its particular monetary policy.
 - Central banks using valuation methods different from those herein recommended, should include on the financial statements notes an indication of the method used and the effect of the use produced over the result and the institute financial position.

b.3.2 Particular Aspect

Based on the agreement that the “Accounting principles” are the fundamental base for the financial statements preparation, which are applied considering the provisions established by professional organizations and the legislation corresponding to each country, the following particular criteria is recommended:

1. In advance contracts and currency futures contracts
2. Various options contracts
3. Currency SWAPS Contracts

1.- In advance contracts and Currency Futures Contract

Objectives and Scopes

Establish particular criteria related to appraisal, registration and presentation on the Financial Statements of these instruments, keeping Central Banks on their positions.

This criterion does not include contracts by third parties.

Definitions and Characteristics

In Advance Contract.- Obligation of buying or selling currency at an established price at a set date and does not have secondary market.

Futures Contract.- The obligation of buying or selling currency at an established price at a set date and has secondary market.

Futures Exchange Rate.- Exchange rate determined by the present, for a future set date.

In this operation, the buying – selling price or currency exchange rate is determined at the moment in which the contract is executed, without an immediate exchange of the same, but up to a future agreed date on the same; or before, if according to the expectations from any of the involved parties it is considered convenient, when in particular it is about Futures Contracts.

Valuation and Registration Criteria

In the case of currency purchase, the amount of currencies to receive will be registered on the Asset, and the currencies to be delivered on the Liability, both considering the agreed future exchange rate. In the case of the currency sale, the registration will be the contrary. The Asset and Liability accounts will be denominated at the corresponding currency.

Such assets and liabilities should be reevaluated for future exchange rate fluctuations, which represent profits or losses that will be registered on an asset or liability transitory account (s), for recognition up to the end of the operations and therefore not integrate them to the rest of the operation. Once it is completed and performed in cash, it will be transferred to Result Accounts.

Depending on each country regulating law such results may be directly accrued or registered as losses or profits.

Presentation Rules for Financial Statements

Assets and Liabilities from these operations should be reflected on the General Balance of the country currency. It is convenient to present them per net result of the same, because it is true that at the beginning of the operation the net result is zero. From reappraisal, there are differentials that create a higher active or liability position which: depending on every country Regulatory Law may be considered as:

- A.- An International Asset (Asset higher to Liability)
- B.- An International Liability (Liability higher to Asset); or:
- C.- Other Asset (Asset higher to Liability)
- D.- Other Liability (Liability higher to Asset)

Profits or losses from the registered reappraisal on the asset or liability transitory account or accounts, being the operation in force, should be included in the title of other assets or other liabilities. When performed in cash, should be incorporated to profits or losses and, consequently, on the Result Statement.

2.- Currency Options Contracts

Objective and Scope

Establish particular criteria related to appraisal, registration and presentation on Financial Statements of this instrument, keeping Central Banks on their positions.

This criterion does not include option contracts by third parties.

Definitions and Characteristics

Options Contract.- It is the right, but not the obligation of buying or selling a currency at a determined price and at a set term.

Option Premium.- It is the price to be charged or paid for having the right to perform or not the option at a set date.

There are two types of options:

- A.- Purchase Option.- (Call) - The right to buy a currency
- B.- Sale Option.- (Put) - The right to sell a currency

Options are classified as:

- A.- European.- Performed or canceled only when matured
- B.- American.- performed or canceled at any time and up to the maturity date

The premium is paid when buying an option and charged when selling it.

Valuation and Registration Criteria

The charged or paid prima is registered on an asset or liability transitory account, in order to consider not realized results until the option is performed or not. The option will be appraise again at the market value and derived fluctuations will be registered on the mentioned transitory account, with a deffered charge or credit. Once the option is performed, results may be transferred to Result Accounts.

Independently, the options buy-sale operations may be registered on the Order Accounts by the value of the currencies subject to the operation, including performing the currency reappraisal.

Presentation Rules for Financial Statements

The charged or paid premium and profits and losses from the option reappraisal, and registered on the transitory accounts, for being the option in force, should be registered on the General Balance on Other Assets and charges or deffered credits, which register the opposite of the reappraisal integrated into Other Assets or Other Liabilities, correspondingly. Once the operation is completed, the bank's profits or losses should be transferred and consequently on the Result Statement.

3.- Currency SWAP Contracts

Objective and Scope

Establish particular criteria related to valuation, registration and presentation on Financial Statements of this instrument, keeping Central Banks on their positions.

This criterion does not include contracts by third parties.

Definitions and Characteristics

Swap.- It is the agreement between two parties establishing to perform payments based on a currency and at an agreed interest rate, at a set term and to receive a payment exchange into other currency with the same or different term and interest rate characteristics.

There are two types of Swap Operation:

Interest Rate Swap.- It is the operation that restructures a debt when changing the payment nature per interest, this is, that capital does not change from one hand to another, therefore it is considered a fixed rate payment exchange for one to a floating rate, at a set period of time.

Currency Swap.- it is a debt exchange from certain currency to other currency during a set period of time with interest exchange and almost always the main are exchanged.

Valuation and Registration Criteria

In the case of the interest rate Swap, the agreed value will be registered on the Asset and on the Liability denominated on the agreed currencies.

On the case of Currency Swap, when there is a flow exchange, the right of receiving currencies is registered on the Asset, keeping the exit record of such currencies from the Bank's assets. On the other hand, the obligation of delivering currencies will be registered on the Liability, keeping a record of such currencies entrance to the Bank's Assets.

In the case of the currency Swap, if no-flow exchange takes place, registration will be according to the expressed for the case of the interest rate Swap.

On the three mentioned cases, assets and liabilities are appraised again to the one full payment exchange rate. The achieved fluctuations will represent profits or losses to be registered on an asset or liability transitory account, in order to recognize them until the operation is completed. Therefore, will not be integrated to the rest of the operation, once the maturity period comes, may be transferred to the result accounts. On the other hand, receivable or payable interests are accrued, affecting the result accounts.

Presentation Rules for Financial Statements

Assets and Liabilities from these operations should be reflected on the General Balance at the countries' currency, being convenient to present them by the net result of the same, either on international assets or on international liabilities. On this same titles accrued interests should be included receivable or payable as corresponding.

Profits or losses from reappraisal registered on the asset complementary account, because the operations are in forced, should be included in the other assets title. Once the operation has been matured it should be incorporated to incomes or expenses and consequently, on the result statement just like accrued interests.

ANNEX III

**MAIN FUNCTIONS FORM A CENTRAL BANK ACCOUNTING AREA.
LOCATION WITHIN THE ORGANIZATIONAL CHART FOR AN EFFICIENT
ACHIEVEMENT OF THE FUNCTIONS. (ACCOUNTING AND BUDGETARY
NORMATIZATION)**

1) A Central Bank's Accounting and Budgetary activities should be within the institutional level, have the same hierarchy dependency and assign faculties to efficiently perform its activities.

2) The activities for the Accounting area should include:

Accounting Normativity
Registration
Control
Information

3) The accounting normativity activity should consider the creation of rules, guidelines and procedures established to perform a process, registration, control and collection of the financial and economic information.

4) Registration activity means that every event produced on the operation or accounting areas that generate an economic fact, should be accounting affected (centralizing or decentralizing) based on the previously established accounting rules.

5) The control activity is to monitor the pre-established rules, the use of documents and the defined accounting operations fulfillment, and to guarantee the quality and quantity of the registered information.

6) The information activity is to obtain and provide the reasonable correct and convenient data for transactions, analysis, consulting and decision making control. Additionally, it should be the source to obtain other type of information used on other areas of the Bank.

7) The budgetary area should have the following activities:

- Creation of norms, planing, consulting, coordination of the different budgetary stages for formulation.
- Development of projects and budgetary programs.
- Monitor, control, assess and report the Budgetary Execution.

**MAIN RESULTS FROM THE VI MEETING ON THE
CENTRAL BANKING ACCOUNTING AND BUDGETARY
ASPECTS**

ANNEX IV

TRANSACTIONS WITH THE INTERNATIONAL MONETARY FUND

Introduction

The transactions made by a central bank due to the financial relations maintained with the International Monetary Fund are, because of their nature and particularity, unique within the context of economic and financial transactions. This is the reason for not having precise accounting rules currently for their treatment and this is why the accountants in central banks need to define particular criteria to improve and uniform the accounting and financial information derived from such transactions.

In most countries the central bank is the only institution allowed to make transactions with the International Monetary Fund and that is why the central bank's financial statements consolidate the financial position of the country with the Fund. Therefore, it is fundamental to have an adequate and consistent valuation, accounting registration, and presentation in the financial statements.

Due to these reasons, in our presentation we propose the rules and particular criteria, to be studied, analyzed, and discussed, for the valuation, accounting registration, and presentation in the financial statements of the quota payments to the IMF, the allocation of Special Drawing Rights, and the received financing.

International Monetary Fund Quotas

Objective and Scope

To establish the particular criteria concerning the valuation, registration, and presentation in the financial statements of the payment that the central banks have to give to the International Monetary Fund, as the subscription quota of their country on joining this international financial organization.

Definitions and Characteristics

Special Drawing Right (SDR). - It is the unit of account of the International Monetary Fund.

Quota. - It is the subscription, denominated in SDRs, paid by every country on joining the International Monetary Fund. According to the Articles of Agreement

of the International Monetary Fund it has to be paid as follows: 75% with domestic currency and 25% with SDRs or other currency.

Reserve Tranche. - It is an international reserve asset, which corresponds to the difference between the paid quota of a member country and the holdings of its national currency by the IMF, excluding the holdings resulting from the use of Fund credit by the member country, whenever the defined Fund's holdings are lower than the quota of the member country.

Maintenance of value. - It is the value update of the domestic currency according to the equivalent SDRs that it represents, valued at the market exchange rate.

Market Exchange Rate of the SDR. - It is the one determined on a daily basis according to the weighing of the prices in the international markets of the currencies that build the valuation basket of the SDR up.

Annual Exchange Rate of the SDR. - It is the one established by the International Monetary Fund annually to register the transactions in the currency of the member country. It corresponds to the market exchange rate of the SDR on the last day of the operating year of the Fund (30th of April).

Valuation and Registration Criteria

The quota paid to the IMF will be registered in an asset account denominated in domestic currency with an equivalent amount of the SDRs paid, valued at the market exchange rate of the SDR. The payment of the 75% of the quota will be registered by increasing the liabilities, in a deposit account in favor of the IMF (Account No. 1), with domestic currency equivalent to the SDRs paid, valued at the annual exchange rate of the SDR. The payment of the remaining 25% will be registered as a decrease in the holdings of the spent currencies.

The payment of the quota to be made with resources from the international reserve is, by definition, the main generator of the Reserve Tranche of a country with the IMF, it will be increased whenever the IMF uses the domestic currency deposited in its favor, and it will be decreased with the disposes (purchases) that the member country makes of the Reserve Tranche.

The use of the Reserve Tranche by a member country will be registered as an increase in the holdings of SDRs or any other currency received. In counterpart, domestic currency will be credited in the deposit account in favor of the IMF with an amount equal to the disposed SDRs, valued at the annual exchange rate of the SDR.

The amount in SDRs of the paid quota, as well as the equivalent SDRs of the domestic currency deposited in favor of the IMF, can be registered in order accounts, so that the reference value of the domestic currency subject to

maintenance of value can be preserved, and that the balance in SDRs of the Reserve Tranche can be determined.

The maintenance of value of the paid quota will be directly registered in the asset account that registers this payment. The maintenance of value of the domestic currency deposited in favor of the IMF will be registered provisionally in a liability account for valuation adjustment, and its balance will be transferred annually to the deposit account of the IMF when the operating year starts (1st of May), or before if the IMF asks for it.

Both the maintenance of value and the difference resulting from valuing the assets with the market exchange rate and the liabilities with the annual exchange rate of the SDR, will be considered as a result from exchange fluctuation. Depending on the legislation of each country, the results from exchange fluctuations can be registered either in a special reserve or in the operating results.

The asset that registers the paid quota and the liability derived from the deposit made in favor of the IMF, do not generate interest charges.

The Reserve Tranche generates interest charges in favor of the central bank, these will be registered in the equivalent domestic currency, at the market exchange rate of the SDR, in the operating results when they are due. As long as the due interests are not charged by the central bank they will be registered in an asset account denominated in SDRs.

Rules of Presentation in the Financial Statements

The asset that registers the paid quota will be presented in the balance sheet at its updated value, as follows:

- a) The difference between the total paid quota and the Reserve Tranche balance, can be presented in a specific sector of the assets, or as a complementary account of the liability sector that presents the deposit account of the IMF so that its effect can be compensated.
- b) The Reserve Tranche will be presented as an international reserve asset.

The liability account that registers the deposit in favor of the IMF in domestic currency will be presented in the balance sheet in a specific sector together with the account of valuation adjustment, so that the addition of both accounts can always reflect the updated value of the Fund's holdings of domestic currency.

The asset account that registers the receivable interests will be presented in the balance sheet, in domestic currency valued at the market exchange rate of the

SDRs, and can be considered as an international reserve asset or as "Other Asset".

Allocation of Special Drawing Rights

Objective and Scope

To establish the particular criteria concerning the valuation, registration, and presentation in the financial statements of the allocation of Special Drawing Rights (SDR) made by the International Monetary Fund to its member countries.

Definitions and Characteristics

Special Drawing Right (SDR).- It is the unit of account of the International Monetary Fund.

Market Exchange Rate of the SDR.- It is the one determined on a daily basis according to the weighing of the prices in the international markets of the currencies that build the valuation basket of the SDR up.

Allocation of SDR.- It is the distribution of SDRs made by the IMF to its member countries. The amount of allocated SDRs to each country is determined as a percentage of its quota.

Holdings of SDRs.- They represent the SDRs owned by the central bank, acquired through allocation or through purchase to the IMF or to another holding country.

Valuation and Registration Criteria

The SDRs received by allocation will be registered in an asset account denominated in SDRs.

The SDRs allocated by the IMF will be registered in a liability account denominated in SDRs.

The interests generated by the holdings (asset) and allocation (liability) of SDRs will be registered in its equivalent domestic currency, at the market exchange rate of the SDR, in the operating results, when they are due. As long as the due interests are not charged or paid, they will be registered in as asset and liability accounts, respectively, denominated in SDRs.

The asset and liability accounts that register the holdings of SDRs, the allocation of SDRs, and the receivable and payable interests, will be revalued at the market exchange rate of the SDR. The profits or losses obtained because of this effect

will be considered as a result from exchange fluctuation, which depending on the legislation of each country, will be registered either in a special reserve or in the operating results.

Rules of Presentation in the Financial Statements

The asset account that registers the holdings of SDRs will be presented in the balance sheet in its equivalent domestic currency, valued at the market exchange rate of the SDR, and will be considered as an international reserve asset.

The asset account that registers the receivable interests will be presented in the balance sheet in its equivalent domestic currency, valued at the market exchange rate of the SDR, and can be considered either as an international reserve asset or as "Other Asset".

The liability account that registers the allocation of SDRs will be presented in the balance sheet in its equivalent domestic currency, valued at the market exchange rate of the SDR, and because it is a non-payable liability (as long as the country is a member of the IMF) it will be located in a special sector of the central bank's liabilities.

The liability account that registers the payable interests will be presented in the balance sheet in its equivalent domestic currency, valued at the market exchange rate of the SDR, and can be considered either as an international liability or as "Other Liability".

Loans from the International Monetary Fund

Objective and Scope

To establish the particular criteria concerning the valuation, registration, and presentation in the financial statements of the financing transactions made by the International Monetary Fund with its member countries.

Definitions and Characteristics

Special Drawing Right (SDR).- It is the unit of account of the International Monetary Fund.

Maintenance of value. - It is the value update of the domestic currency according to the equivalent SDRs that it represents, valued at the market exchange rate.

Market Exchange Rate of the SDR.- It is the one determined on a daily basis according to the weighing of the prices in the international markets of the currencies that build the valuation basket of the SDR up.

Annual Exchange Rate of the SDR.- It is the one established by the International Monetary Fund annually to register the transactions in the currency of the member country. It corresponds to the market exchange rate of the SDR on the last day of the operating year of the Fund (30th of April).

Valuation and Registration Criteria

The amount of SDRs or other currency received through a financing transaction agreed with the International Monetary Fund (purchase of resources) will be registered in asset accounts denominated in the corresponding currency. In counterpart, the liabilities will be increased, in a deposit account in favor of the IMF (Account No. 1), with the equivalent domestic currency of the SDRs received in loan by the IMF, valued at the annual exchange rate of the SDR. The payments of the received loans (repurchase of resources) will be registered inversely.

The amount in SDRs of the acquired debt with the IMF can be registered in order accounts, so that the reference value of the domestic currency subject to maintenance value can be preserved.

The maintenance of value of the domestic currency deposited in favor of the IMF will be registered provisionally in a liability account for valuation adjustment, and its balance will be transferred annually to the deposit account of the IMF when the operating year starts (1st of May), or before if the IMF asks for it.

Both the maintenance of value and the difference resulting from valuing the assets with the market exchange rate and the liabilities with the annual exchange rate of the SDR, will be considered as a result from exchange fluctuation. Depending on the legislation of each country, the results from exchange fluctuations can be registered either in a special reserve or in the operating results.

The interest charges payable by the central bank derived from the debt with the IMF will be registered in the equivalent domestic currency, at the market exchange rate of the SDR, in the operating results, when they are due. As long as the due interests are not paid by the central bank they will be registered in a liability account denominated in SDRs.

Rules of Presentation in the Financial Statements

The asset account that registers the resources received in loan will be presented in the balance sheet in its equivalent domestic currency, valued at the market exchange rate, and it will be considered as an international reserve asset.

The liability account that registers the deposit in domestic currency in favor of the IMF will be presented in the balance sheet in a special sector together with the account for valuation adjustment, so that the addition of both accounts can always reflect the updated debt with the International Monetary Fund.

The liability account that registers the payable interests will be presented in the balance sheet in the equivalent domestic currency, valued at the market exchange rate of the SDR, and can be presented either as an international liability or as "Other Liability".

**MAIN RESULTS FROM THE VII MEETING ON THE
CENTRAL BANKING ACCOUNTING AND BUDGETARY
ASPECTS**

ANNEX V

RECIPROCAL PAYMENT AND CREDIT AGREEMENTS

Objective

To establish the particular criteria for valuing, recording, and presenting in the financial statements the operations conducted under reciprocal payment and credit agreements between central banks.

Definitions and Characteristics

Reciprocal payment and credit agreements are inter-central bank currency clearing mechanisms.

Those arrangements have the following general characteristics:

- Central banks grant each other credit lines to allow for the deferred payment of balances in their inter-central bank accounts.
- At the same time, central banks extend credit lines to local financial intermediaries to facilitate the channeling of the payments.
- Local financial intermediaries may issue instruments of payment, such as drafts to order, letters of credit, payment orders, documentary credits, bills to order, or notes.
- Central banks pay or charge local financial intermediaries on the basis of the debt and payment instruments received.
- It is possible for central banks to agree to pay interest on the difference in days between the settlement date with the local financial intermediaries and the date of the clearing operation.

Valuation and Recording Criteria

According to the stipulations stated in the agreements, it is recommended that operations derived from those agreements be entered in and monitored through two accounts; one, a debtor account, which registers the credits provided to other central banks, under the established reciprocal payment agreements; and another one, a creditor account, which registers the credits received from other central banks, derived from the referred agreements. The debtor account will be debited by the amounts the central bank reimburses to local financial

intermediaries; and, the creditor account will be credited by the amounts the central bank collects from the local financial intermediaries.

The interests, if any, on the amounts owed to or by the central bank will be registered in its local currency equivalent to operation results as they are accrued. Meanwhile the accrued interests are not paid or charged, these will be registered in asset or liability accounts, in foreign currency.

On the date of the clearing operation, the central bank must settle the amounts due to it and payable by it; any difference between the two sums should be credited to or debited from the respective collection or payment through a foreign currency transfer.

It is advisable for central bank credit lines to be recorded in memorandum accounts for monitoring purposes.

Rules for Presentation in Financial Statements

The above-mentioned debtor and creditor accounts shall be shown, according to the equivalent in local currency, in the financial statement, and depending on the applicable legislation, may be presented according to the following:

- a) Without balances clearance.- The debtor account as International Asset and the creditor account as International Liability.
- b) With balances clearance.- The net debtor balance resulting from the clearance of the debtor and creditor accounts as International Asset, and the net creditor balance resulting from such clearance should be presented as International Liability.

The asset representing uncollected interests accrued should be presented in the financial statement in its local currency equivalent and may be considered as an International Asset or Other Asset.

The liability representing unpaid interests accrued should be presented in the financial statement in its local currency equivalent and may be considered as an International Liability or Other Asset.

ANNEX VI

Currency Issuance and Circulation

Objectives and Scope:

Establishing specific registration and accounting control criteria for currency acquisition or production operations at market value, as well as the issuance and circulation of currency at face value.

Definitions and Characteristics:

Inventory.- Goods belonging to Central Bank for purposes of fulfilling the currency requirements of the economy, such as raw materials, currency production in process, finished currency production, as well as spare parts for maintenance of production equipment used in the normal course of operations, or acquired currency, as the case may be.

Currency. - Notes and Metal Coins

Operations affecting the financial position.- These are the operations affecting the central bank's capital; that is to say, the assets, liabilities and results of the Bank.

Acquisition Value - This is the sum of disbursements attributable to purchases and other expenses incurred directly or indirectly to acquire the currency.

Production Value.- This relates to the amount of disbursements or payments originating from the acquisition of raw materials and materials, as well as those referring to labor, depreciation, and other direct or indirect expenses generated in the transformation process until the finished production is obtained.

Face or Nominal Value.- This is the release power expressed in the currency.

One of the objectives of the central bank is to provide the country's economy with its respective domestic currency. Normally, the organization structure of the central bank contemplates a functional area designed for the regular issuance and circulation of the currency, including the attributes necessary to prevent, plan, execute, and control currency issuance.

Below, we outline the activities that are necessary and relevant to the completion of the different phases comprising the currency issuance and circulation cycle:

- Performance of studies to establish the currency acquisition, production, or distribution programs.
- Execution and formalization of the actions necessary to acquire or produce the currency through third parties or at proprietary facilities.
- Arrange currency transport and custody activities.
- Custody of currency received from production by third parties or at proprietary facilities.
- Provision and withdrawal of currency to the correspondent banks and domestic banks.
- Disabling and destruction of unusable currency withdrawn from circulation due to deterioration.
- Management of metals resulting from withdrawal of metallic currency from circulation.

Valuation and Recording Criteria

As an information and control system, the accounting distinguishes and records the operations relating to currency issuance and circulation in two groups: the first refers to operations affecting the financial position of the central bank, while the second refers to operations not affecting the financial position and which are recorded only for control purposes.

a) Operations affecting the financial position

This section includes the concepts modifying the central bank's equity structure, such as the recording of currency, production or acquisition cost, as well as the face value of deposits and currency circulation withdrawals.

Acquisition Value o Production Value

Depending on that established by the regulations of each central bank, or that agreed by the governing body of each bank, two valuation and recording criteria exist:

- A)** The currency acquired or produced must be recorded in the respective asset accounts under the following possible headings: Raw Materials and Materials (including those in transit), Currency Production in Process, and New Finished or Acquired Currency to control currency inventories.

Each central bank is to select the inventory valuation method and production cost system most appropriate to its characteristics and must apply such method consistently bearing in mind that the decision may dramatically affect the inventory cost and the results of operations; consequently, a prudent judgment should be made.

Inventories may be adjusted taking into consideration the effects of inflation, either at constant value or at replacement value, in accordance to the up-to-date policy adopted by each central bank and its current legislation. This amount will be recorded as a complement in the same asset accounts mentioned in the previous paragraph against a re-adjustment statement account.

At the time the asset recorded as a finished or acquired product is retired, the restated production or acquisition value will be applied to operating results, in conformity with applicable legislation and the policies established by the governing body of the central bank in question. It should be mentioned that the cost applied to operating results may remain restated, applying the restatement method adopted as per the previous paragraph. This amount is to be recorded as a complement in the respective expense account against a restatement adjustment account.

B) The currency acquisition cost is applied directly to the operating results of the central bank or, alternatively, such cost can be considered a deferred cost applicable to future years in keeping with that established under the regulations of the central bank in question. In the latter case, inventory control may be kept through memoranda accounts.

Face Value

Whenever currency is put into circulation, two criteria may be applied for valuation and accounting recognition purposes:

A) Recording the face value of the currency in a liability account, charging the current accounts of the banks -or the corresponding accounts- receiving the currency.

The currency withdrawn from circulation must be recorded as a liability decrease, charging the current accounts of the banks -or the corresponding accounts- from which the currency is withdrawn.

The amount obtained from the alienation of the metal obtained from the metallic currency withdrawn from circulation is recorded as an asset in results.

B) Recording in an asset account the face value of the currency entering the vaults of the central bank, crediting such face value amount in liability account. Subsequently, when the currency is put into circulation, the aforementioned asset account is credited with a charge to the current accounts of the banks -or the corresponding accounts- receiving the currency. In some countries, these concepts are known as Gross Issuance and Net Issuance.

The currency withdrawn from circulation must be recorded with a charge to the aforementioned asset account, and crediting the current accounts of the banks -or the corresponding accounts- from which the currency is withdrawn.

Whenever the currency is destroyed, the aforementioned asset account must be credited with a charge to the liability account mentioned two paragraph behind.

b) Operations not affecting the financial position

For purposes of accounting control of the issuance process, it is advisable to use memoranda accounts recording the face value, and each event specifically from the time of their authorization through the withdrawal and destruction of the currency.

Authorized currency issuance: This is increased by the face value of the currency issuance authorized by the governing body of the central bank in question, and is decreased by cancellation and face value of the issuances authorized, as well as by the face value of the defective coins obtained from production, and also as a result of the cancellation of coins destroyed.

Currency to be Ordered and in Production: This is increased by the face value of the currency issuance authorized by the governing body of the central bank in question and is decreased by the face value of the new currency provided to the bank, either as a result of finished or acquired production, as well as by the face value of the defective currency obtained from production or from the cancellation of authorized issuance.

New Currency: This is increased by the new currency in existence in the central bank and is decreased by the withdrawals from the banks and other agents, as well as through the return of faulty units to the banks.

Currency Used : This is increased by the deposit made by the credit institutions in the central bank and is decreased by the withdrawals made, as well as by the disabling and destruction of the currency.

Unused Currency : This is increased by the face value of the unused currency under the custody of the central bank and is decreased by the destruction of the currency.

Destroyed Currency : This is increased by the face value of the currency destroyed and is decreased by the annual cancellation of the balance against authorized issuance.

Withdrawn Currency : This is increased by the face value of the stock at the central bank and whose withdrawal has been authorized and is decreased by the cancellation of the currency against unused currency.

Currency in Circulation : This is increased by the withdrawals made by the banks and other agents of currency deposited in the central bank, and is decreased by the deposits made.

Financial Statement Presentation Rules

Whenever the currency produced or acquired is recorded or valued in conformity with that established in subordinate clause **A** *Acquisition Value o Production Value* of this document, the asset accounts including inventories and merchandise in transit must be recorded under the Other Assets caption.

Whenever the currency produced or acquired is recorded or valued in conformity with that established in subordinate clause **B** *Acquisition Value o Production Value* of this document, the accounts production cost and/or currency acquisition must be reflected as an integral part of the statements of results.

The notes to the financial statements must reflect the valuation method and the costs system used whenever these change in relation to the previous year for any given reason. These effects should be indicated and explained under inventories and in results.

The liabilities account used to record the currency put into circulation must be presented under the Currency Placed in Circulation or Monetary Circulation captions as defined by each central bank.

The accounts reflecting the recovery of the metal obtained from the currency withdrawn from circulation must be reflected as an integral part of the statement of income.

ANNEX VII

Monetary Regulation Operations

Objectives and Scope

To establish specific criteria for valuing, recording, and presenting the operations performed by the central banks with the purpose of regulating liquidity in the economy.

Definitions and Characteristics

Active Operations for Monetary Regulation Purposes.- These are the operations performed by the central banks to provide the financial system with liquidity and which expand the monetary base. This may be performed through operations considered within the regulations of each bank.

Passive Operations for Monetary Regulation Purposes.- These are the operations performed by the central banks to retire excess liquidity in the financial systems and thus avoid a contraction in the monetary base. Under the regulations of each bank, these operations can be performed by entering into currency bank deposit agreements or through the issuance of monetary regulation titles.

Valuation and Recording Criteria

The monetary regulation operations that expand liquidity are recorded in asset accounts at their agreed value, and must be assigned to specific accounts depending on their origin and nature.

The monetary regulation operations that contract liquidity are recorded in liability accounts at their agreed value, and must be assigned to specific accounts depending on their origin and nature.

The interests generated from the monetary regulation asset operations previously mentioned are to be recorded in the operations results as they are accrued. While the interest is not charged, it is to be recorded in the interests to be collected account.

The interest generated on the monetary regulation liability operations are recorded in the operations results as the interest is accrued. While the interest remains unpaid, it is to be recorded in the interests to be payed account.

Financial Statement Presentation Rules

The assets and liabilities derived from the monetary regulation operations must be reflected in the statement of changes in financial position and should be classified under the various assets and liabilities headings depending on their origin and nature, in accordance to the structure contemplated for the financial statements under applicable legislation or that approved by the governing body of the central bank.

**MAIN RESULTS FROM THE VIII MEETING ON THE
CENTRAL BANKING ACCOUNTING AND BUDGETARY
ASPECTS**

ANNEX VIII

FIXED ASSETS

Objective and Scope

To establish rules for the valuation, recording and presentation in financial statements of Central Bank's fixed assets operations.

These rules do not include aspects relative to restating the value of fixed assets.

Definitions and Characteristics

Fixed Assets: Are tangible goods, such as real estate, machinery and equipment, which are used for the benefit of the Central Bank. Fixed assets represent investments of a permanent nature whose exact life span are not known, therefore they are generally estimated to be of a medium to long term duration with a disposal value; which is estimated through depreciation in order to recapitalise the investment, (with the exception of land).

Acquisition Cost: Net price paid for the goods, either by cash or its equivalent, plus all expenses necessarily incurred to bring it to its permanent location and to make it functional.

Construction Cost: Direct and Indirect costs incurred on the asset, such as labour, engineering and planning costs, supervision and administration, taxes and costs of loans obtained specifically for this objective, which accrue during the specific construction period. The construction period is completed when the asset is in a condition to enter into service, and is independent of the date on which the accounts of the fixed capital were transferred.

Modifications and Improvements: Are investments made to increase the value of the asset and increase the service and efficiency capacity, prolong its useful life span and improve productivity.

Repairs and Maintenance: Are recurrent expenditure for the maintenance and preservation of the asset under normal service conditions. These expenses do not increase the service capacity, or augment efficiency, they only maintain the asset and do not prolong the useful life span nor improve productivity.

Depreciation: An accounting procedure for the systematic and reasonable distribution of the cost of an investment in tangible fixed assets, less the residual value, if any, over the estimated useful life span of the asset.

Valuation and Recording rules

Central Banks should value their fixed assets at cost of acquisition, construction cost, or in other instances at their equivalent cost.

Should the acquisition cost include incidental expenditures, it will be necessary to record such expenses in a suspense account before charging them to the relevant asset account.

The specific rules established for valuation of types of goods that belong to the fixed assets category, (real estate, machinery and equipment), are made with the understanding that the recording will be carried out using as many asset accounts as are necessary to maintain control and identification of the assets.

Lands

The land valuation should be done at the acquisition cost, which includes the purchase price, fees, lawyers' fees, indemnifications, commissions, taxes, localisation costs, demolition, clearing, felling of trees, drainage, development (city planning), etc.

Buildings

These should be valued at acquisition or construction cost, which includes installation of equipment of a permanent nature. Also considered as part of this cost are: building permits, architects and engineers fees, planning and engineering costs, legal fees, supervision and administration expenditures, etc., which are incurred in carrying out the construction. The construction period ends when the asset is brought into service, regardless of the date on which the accounting entries for the buildings are transferred for operational purposes.

Construction in Progress

These should be valued at construction cost. This cost should be recorded in an account designated "Construction in Progress" which should include sub-accounts to control each of the specific projects and sub-accounts with elements that make up the cost.

All temporary costs of construction in progress will be recorded in a Construction in Progress account which is a suspense account. Once construction is completed, the total cost will be determined and will be transferred to the specific real estate, machinery and equipment account. This transfer is called capitalisation, because from that moment it represents a long-term investment and is therefore subject to depreciation.

Machinery and Equipment

Should be valued at acquisition or manufacturing costs or both together with transportation installation charges, and all the associated acquisition costs. Costs incurred for testing machinery and equipment should be considered as additional costs of the assets.

Equipment includes transportation of the equipment, movable property (furniture) and equipment, machinery, special information technology equipment and telecommunications.

Modifications and Improvements

Expenditures on modifications and improvement should be charged separately from the cost of the original fixed assets. Besides, in this way better information is provided. The cost of modifications and improvements can be subjected to a different percentage of depreciation than that which was applied to the cost of the original asset.

Reconstructions

Should be valued at acquisition cost. Reconstructions are quite normal in buildings and certain types of machinery which when modified, the alterations are so complete that they cannot be regarded as alterations or repairs but reconstructions, which increases the value of the asset. If any parts of the old unit have been utilised in the reconstruction, their book value, or an estimate, are added to the cost of reconstruction.

In order to avoid an over valuation of a reconstructed asset, if appropriate, the replaced parts should be deducted. When it is not possible to determine the cost of the replaced parts, an estimate should be made on the basis of their book values. If the reconstruction was virtually total, it is suggested that the cost be considered to be that of a new unit and the previous unit retired since the useful life span of the reconstructed unit will be considerably greater than the remaining useful life span of the original unit.

Repairs

Normal repairs are not capitalised since their purpose is to preserve the asset in normal serviceable conditions. The amount of such repairs should be charged to the operating results of the period.

Assets received as Donations

Assets acquired free of charge or donated, should be recorded at their market value on the date they were received. To express their economic significance, a valuation exercise should be carried out in order to reasonably establish their true value, these items should be recorded as part of the Central Bank's fixed asset; and the surplus arising from donations should be credited in a capital account.

Depreciation

When selecting the method for calculating depreciation, the characteristics of the fixed assets, as well as its impact on the operating results of the institution, must be taken into account.

The amount of the fixed asset depreciation will be recorded in a complimentary asset account and a contra entry will be made in the Statement of Operating Results.

It is advisable not to fully depreciate the asset, but to leave at least a symbolic amount where there is no scrap value. This will allow control of the asset in a numeric form in the accounting process.

Depreciated assets, that are not functional, should be removed and transferred to a non-operative fixed asset account. These should be valued at their net realisable value recognising at that moment a profit or loss in the operating results of the period.

When an asset is sold a profit or loss may be obtained, or neither a profit nor loss may be made, if the selling price is equal to the book value. When an asset is retired by sale, destruction or for any other reason, both the investment account and the accumulated depreciation account should be cancelled and the profit or loss, where applicable, should be recorded in the operating results of the accounting period.

Rules for presentation in the financial statements

Fixed assets accounts should be shown in the balance sheet together with the accounts that record the accumulated depreciation under a heading entitled "Fixed Assets".

The composition of fixed asset may be shown in the same balance sheet or otherwise in the notes to the financial statements, so that the method and rates of depreciation applied to the fixed assets can be revealed. The amount of depreciation charged for the year and the accumulated depreciation should be mentioned.

ANNEX IX

FOREIGN EXCHANGE TRADING

Objective and Scope

To institute specific criteria for the appraisal, registration and presentation of financial statements on foreign exchange trading operations performed by the Central Banks and on their holdings of foreign currencies.

These specific criteria do not include foreign exchange trading operations executed on behalf of third parties; neither do they include forward exchange operations.

Definitions and Characteristics

Foreign exchange.- Legal tender issued abroad.

Market exchange rate.- Reference value of the price of any currency in the international market, usually against the US dollar.

Foreign exchange trading includes any operation through which the Central Bank purchases or sells foreign currencies and pays or charges a specific amount of another currency, either national or foreign. Trading different currencies alters the arrangement of fixed assets, and it may also cause a quantitative change if the value of the purchased or sold currency is different from that paid or charged. When trading operations are carried out with local financial or government institutions, involving national and foreign currencies, international reserve assets undergo quantitative changes too.

Central Bank's holdings of foreign currencies indicate the availability of foreign exchange usually deposited in correspondent banks abroad and are used to afford daily expenses derived from primary operations. Alternatively, foreign currencies held at the Central Bank are used to afford eventual minor payments.

Criteria for Appraisal and Registration

a) Foreign exchange trading in international markets

Foreign exchange received (delivered) by the Central Bank on account of purchase (sale) operations will be registered as an increase (decrease) in an asset account denominated in the original currency; in compensation, a decrease (increase) will be registered in the holdings of the foreign currency paid (charged) at any agreed price. If the equivalent value in national currency of the amount

charged (paid) is higher (lower) than that of the paid (charged) currency, both appraised at the market exchange rate on whichever effective date, such differential will be registered as a consequential profit or loss in the operating balance.

b) Foreign exchange trading in the national market

Foreign exchange received (delivered) by the Central Bank on account of purchase (sale) operations will be registered as an increase (decrease) in an asset account denominated in the original currency; in compensation, national currency will be credited (debited) to the current account of the selling (purchasing) financial or government institution according to the payment (charge) made at any agreed price. If the equivalent value in national currency of the amount charged (paid) is higher (lower) than that of the currency paid (charged) to the seller, both appraised at the market exchange rate, such differential will be registered as a consequential profit or loss in the operating balance.

The asset accounts where the Central Bank's holdings of foreign exchange are registered are reappraised at the market exchange rate of the national currency against the foreign currency in question. The profits or losses that result of such exchange fluctuation must be recorded in a profit and loss account, or in a capital reserves account.

Rules for the Presentation of Financial Statements

The asset accounts where the holdings of foreign exchange are registered must be presented as part of the general balance, expressed in the equivalent amount in national currency under "International Reserve Assets."

ANNEX X

FOREIGN EXCHANGE INVESTMENTS

Objective and Scope

To institute specific criteria for the appraisal, registration and presentation of the financial statements on the items that comprise the Central Banks' foreign exchange investments in time deposits, call money and overnight.

These criteria do not include foreign exchange investments made on behalf of third parties.

Definitions and Characteristics

Time deposit.- The operation by which the Central Bank (depositor) places and invests, in its own favour, a certain amount of foreign exchange in a foreign financial institution (depository) under a specific maturity term. Thus, once due, the depository pays the depositor a certain amount on account of the interests yielded, based on the contract interest rate.

Call Money Deposit.- The operation by which the Central Bank (depositor) invests, in its own favour, a certain amount of foreign currency in a foreign financial institution (depository) in an unrestricted availability repayment account, for which the depository periodically pays interests to the depositor as long as the deposit is effective. There is no defined maturity period and the interest rate is variable.

Overnight Deposit.- At the closing of operations of the Central Bank, the remaining resources in foreign currency registered in unrestricted availability non-repayment accounts are transferred to foreign financial institutions to be placed as "Overnight Deposits", under a specific agreement reached with such institution (depository) on the interest rate to be paid to the Central Bank (depositor) for the effective period of the deposit (one night). At the opening of operations on the following working day, the depository turns the invested capital plus an additional amount on account of the interests yielded over to the depositor.

Investing available foreign currency in interest deposits is a widespread practice among Central Banks, for even when the payment offered by the depositories might be considered rather low, there is no question it turns out to be higher than the zero rate of return from keeping said resources in non-repayment accounts.

Time deposits, call money and overnight deposits are all part of an operation that entails a qualitative change in the reserve assets due to the transitory alteration

in their availability. The yielding of profits derived from the investment of resources in interest deposits implies a quantitative change in the reserve assets.

Criteria for Appraisal and Registration

Time deposits, call money and overnight deposits involve an alteration in the configuration of international assets due to the decrease in the asset account where the stock of foreign currencies in “unrestricted funds” is registered and to the increase in the asset account where the investment of foreign exchange in the respective deposit is registered, both accounts expressed in the same original currency. Upon maturity of the time deposit and overnight deposit, as well as due to the withdrawal of resources from the call money deposit, an opposite effect is registered in the reserve assets.

The interests earned as a result of both the time deposit and the call money deposit will be registered as they are yielded (equivalent amount in national currency) in the operating balance. As long as the interests yielded are not collected, they will be registered in an asset account expressed in the same currency in which the respective deposit was made.

The interests yielded after an overnight deposit may be registered:

As a provision of funds, on the same date the deposit is made, in an asset account expressed in the same currency in which the deposit was made, as long as the maturity, amount and investment rate are defined. In compensation, an equivalent amount in national currency, at the market exchange rate for the pertinent currency, will be registered as profit in the operating balance.

As collected, simultaneously when the deposit is mature.

Once the time deposit is mature, the asset account where the stock of foreign exchange in “unrestricted funds” is registered will show an increase equivalent to the amount associated to the cancellation of the time deposit plus the interests paid to the Central Bank (depositor) by the depository. Therefore, the balance of the asset account where the interests yielded by said deposit but not collected are registered will be cancelled at the same time as the principal of the asset account where the “time deposit” is registered.

The collection of interests yielded as a result of call money deposits will be registered by increasing the asset account where the stock of foreign currencies in “unrestricted funds” is registered, or the asset account where the investments in call money deposits are registered, as agreed with the depository. In compensation, the balance in the asset account where the interests yielded by said deposit but not collected are registered will be cancelled.

When the interests earned by the overnight deposit have been provisioned, once the deposit is mature, the asset account where the deposits of foreign currencies in “unrestricted funds” are registered will show an increase equivalent to the cancellation of the overnight deposit plus the interests paid to the Central Bank (depositor) by the depository. Thus, the balance of the asset account where the interests yielded by said deposit but not collected are registered will be cancelled at the same time as the principal in the asset account where the “overnight deposit” is registered.

When the interests earned by the overnight deposit have not been provisioned, once the deposit is mature, the asset account where the deposits of foreign currencies in “unrestricted funds” are registered will show an increase equivalent to the sum of principal plus the interests paid by the Central Bank (depositor). Thus, an amount of national currency, equivalent to the interests effectively collected and valued at the market exchange rate of the relevant currency, will be registered in the operating balance, as well as the cancellation of the principal in the asset account where the “overnight deposit” is registered.

The assets accounts where the investments in time deposits, call money and overnight deposits are registered, as well as the assets where the interests yielded but not collected are registered, will be restated at the market exchange rate for the currency they are expressed in. The resulting profit or loss will be regarded as a consequence of the exchange fluctuation, and will be registered in a profit and loss account, or in a capital reserves account.

Rules for the Presentation of Financial Statements

The asset accounts where the investment of foreign exchange —either in time deposits, call money or overnight deposits— are registered, should be presented in the general balance, as an equivalent amount in national currency, under “International Reserve Assets,” unless the applicable legislation provides for over-one-year deposits to be excluded from international reserves, and so such deposits should be reported under “Other Assets.”

It is advisable to report the asset accounts where the interests yielded but not collected are registered in the general balance, expressed in the equivalent amount in national currency, under “International Reserve Assets.”

ANNEX XI

GOLD TRADING

Objective and Scope

To institute specific criteria for the appraisal, registration and presentation of financial statements on gold holdings and trading operations performed by the Central Banks.

These specific criteria do not include foreign exchange trading operations executed on behalf of third parties; neither do they include forward gold exchange operations.

Definitions and Characteristics

Ounce.- Unit of weight for gold content; base-unit used to appraise gold in US parity.

Market quotation.- Daily statement of the price of gold (ounce) in the international market. This quotation is expressed in US parity per gold ounce.

Gold trading includes any operation through which the Central Bank purchases or sells gold, and pays or charges foreign exchange according to the contract price. Gold trading alters the arrangement of reserve assets: purchasing gold expands gold holdings and reduces the availability of foreign currencies; selling gold has the opposite effect.

Criteria for Appraisal and Registration

Gold received (delivered) by the Central Bank on account of purchase (sale) operations will be registered as an increase (decrease) —amount equivalent to the gold ounces received (delivered), appraised at the current market quotation— in an asset account denominated in the foreign currency fixed by the Bank (usually US dollars). In compensation, a decrease (increase) will be registered in the holdings of the foreign currency paid (charged) at the contract price.

If the value of the foreign currency charged (paid) is higher (lower) than that of the value of the delivered (received) gold ounces, appraised at the market quotation when the purchase (sale) operation effectively takes place, such differential will be registered in its national currency equivalent as a consequential profit or loss in the operating balance.

The asset account where the Central Bank's holdings of gold are registered (expressed in whatever foreign currency the Bank decides) are reappraised at the market quotation of the ounce against the foreign currency in question, and at the market exchange rate of the national currency against such foreign currency. The profits or losses that result of such exchange fluctuation must be recorded in a profit and loss account, or in a capital reserves account.

Rules for the Presentation of Financial Statements

The asset account where the holdings of gold are registered must be presented as part of the general balance, expressed in the equivalent amount in national currency under "International Reserve Assets."

ANNEX XII

TIME DEPOSITS OF GOLD

Objective and Scope

To institute specific criteria for the appraisal, registration and presentation of financial statements on time deposits of gold made by the Central Banks.

These specific criteria do not include time deposits of gold made on behalf of third parties.

Definitions and Characteristics

The operation by which the Central Bank (depositor) places and invests, in its own favour, a certain amount of gold during a fixed term at a foreign financial institution (depository), thus the depository pays the depositor a certain amount of interests on the maturity date, based on the contract interest rate.

This operation entails a qualitative change in the stock of reserve assets and, if applicable, a quantitative one for the interests yielded in favour of the Central Bank.

Its particular feature is that the interests earned through this deposit are not estimated in gold, but in foreign currency (usually US dollars).

Criteria for Appraisal and Registration

Time deposits will be registered in an asset account denominated in whatever currency set by the Central Bank (usually US dollars) showing the equivalent amount of ounces of gold intended for such deposit, valued at their market quotation. As an offset, the asset account where the stock of available gold is registered will show a parallel decrease.

The interests earned by the time deposits will be registered, as an equivalent amount in local currency, in the operating balance as they are yielded. As long as such interests are not charged, they will be registered in an asset account expressed in the currency in which the interests will be collected.

When the time deposit matures, the asset account where the stock of available gold is registered will be increased on account of the amount equivalent, in US dollars or any other currency originally set, to the ounces of gold valued at their market quotation on the maturity date. In compensation, the same amount will be decreased in the asset account where the time deposited gold is registered.

In the same regard, due to the collection of interests once the time deposit is mature, there will be an increase in the stock of foreign currency in the currency in which the interests will be charged, and the same amount will be credited into the asset account where the interests yielded but not collected are registered.

The asset account where the time deposits are registered, in whatever currency set by the Central Bank, is restated at the market quotation of the ounce against such currency, and against the market exchange rate of the national currency and its parity with the foreign currency. The resulting profit or loss should be considered as a consequence of the exchange fluctuation, and will be registered in a profit and loss account, or in a capital reserves account.

The asset account where the interests earned but not collected are registered is restated at the market exchange rate of the suitable currency. The resulting profit or loss should be considered as a consequence of the exchange fluctuation, and will be registered in a profit and loss account, or in a capital reserves account.

Rules for the Presentation of Financial Statements

The asset account where the amount of time deposited gold is registered should be presented in the general balance, expressed in the equivalent amount in national currency, under "International Reserve Assets," unless the applicable legislation provides for over-one-year deposits to be excluded from international reserves, and so such deposits should be reported under "Other Assets."

Banks are advised to report the asset account where the interests yielded but not collected are registered in an equivalent amount in national currency, under "International Reserve Assets" as part of the general balance.

ANNEX XIII

FOREIGN SECURITIES INVESTMENTS

Objective and Scope

To institute specific criteria for the registration of the Central Banks' trading of foreign securities, and for the appraisal and presentation of financial statements on the Central Banks' holdings of such instruments.

These criteria do not include operations performed on behalf of third parties involving foreign securities.

Definitions and Characteristics

Foreign Securities.- All credit papers issued by foreign governments or financial institutions, expressed in foreign currency and payable beyond the national borders. Depending on their characteristics, foreign securities can be classified into two large groups:

Discount securities (zero coupon security): Securities acquired at a price below their nominal value; the cash flow or profit stems from the difference between the purchase value and the nominal value, the latter obtained once the securities mature.

Bonds: Securities in which the cash flow or profit results from the difference between the purchase value and the nominal value when due (price), and of the interests earned, which are collected in several payments during the effective period of the security in question (payment of coupon).

Market value. - The reference value in the international markets on the price at which the securities issued abroad are quoted.

The trade of foreign securities includes the operations by which the Central Bank purchases or sells a credit instrument issued abroad, and pays or receives a certain amount of foreign exchange, as payment of the contract price. This kind of operations only alters the configuration of the reserve assets, because when foreign securities are purchased, the decrease registered in the stock of foreign currencies is compensated by an increase in the holdings of foreign securities. The reverse effect is registered when foreign securities are sold.

Criteria for Appraisal and Registration

The foreign securities given to the Central Bank as a result of purchase operations will be registered at the acquisition value in the asset account where

the holdings of foreign securities are registered. This account should be expressed in the original currency in which the securities were issued. In compensation, a decrease in the holdings of the currency delivered as payment of the contract price will be registered. When bonds are purchased and they include interests yielded, the increase in the asset account where the holdings of foreign securities are registered will be equivalent to the amount of the price paid, including the interests purchased.

The restatement of the value at market prices of the holdings of foreign securities will be registered in the same asset account that keeps track of such holdings. In compensation, the resulting profit or loss will be entered, in national currency, in the operating balance. Moreover, for bonds, as long as the interests earned are not collected, they will be registered as they are yielded, either increasing the value of the asset account where these holdings are registered or through another asset account expressed in foreign currency where the interests yielded by bonds but not collected are registered. In any case, as an offset, the resulting profit will be registered, in national currency, in the operating balance. Once the interests yielded are collected, the corresponding amount will be charged to the asset account where the holdings of foreign exchange are registered and, in compensation, the relevant asset account will be debited.

Once a foreign security is sold, it will be written off the asset where such holding is registered, at its market value, and so will be the interests yielded by bonds. In compensation, an increase will be observed in the holdings of the foreign exchange received as payment of the contract price. When the market value of the security sold (including the interests yielded in the case of bonds) is lower than the price charged for it, the difference would be registered, in national currency, as profit in the operating balance. Otherwise, a loss will be entered in the operating balance.

The asset accounts where the Central Bank's holdings of foreign securities and the interests earned but not collected are registered, are restated at the market exchange rate of the national currency in relation to the currency they are expressed in. The resulting profit or loss should be considered as a consequence of the exchange fluctuation, and will be registered in a profit and loss account, or in a capital reserves account.

Rules for the Presentation of Financial Statements

The asset where the holdings of foreign securities are registered should be presented in the general balance, at its equivalent amount in national currency, under "International Reserve Assets."

It is advisable to present the asset account where the interests yielded but not collected are registered in the general balance, expressing its equivalent amount in national currency under "International Reserve Assets" as well.

ANNEX XIV

FOREIGN SECURITIES LOANS

Objective and Scope

To institute specific criteria for the appraisal, registration and presentation of the financial statements on the foreign securities loans granted by the Central Banks.

These criteria do not include the foreign securities loans granted on behalf of third parties

Definitions and Characteristics

The operation by which the Central Bank (lender) grants a certain amount of securities as a loan to a financial entity abroad (borrower); in turn, the borrower deposits a specific amount of other securities in favour of the lender as a guarantee against the securities received as a loan.

The securities granted as a loan, also known as original securities, are delivered to the borrower through a foreign financial entity other than the lender (custodian). In turn, the borrower submits the securities chosen by the lender as guarantee to the custodian (collateral securities), so that they are deposited in favour of the lender. When the operation is due, the borrower pays the lender an interest in foreign exchange in reward of the securities loan, and submits the original securities to the custodian so that they return to the lender who notifies the custodian once the operation is complete.

The nominal value of the original securities and of the collateral securities is not equal because they are different in origin. However, they coincide in terms of their market value. Usually, the lender requests that the market value of the collateral securities be a specific percentage above the market value of the original securities, in order to ensure that no imbalances affect the transaction due to a possible drop in the price of the guarantee.

It should be noted that, while the operation is valid, the lender does not give up on the profitability of the original securities, nor does the borrower with regard to the collateral securities. Therefore, should any coupon mature in the midst of the validity of the agreement, the custodian will be in charge of submitting the interests paid by the issuer to the holder of the securities in question on such date, even if the operation is not yet due. Hence, the holder of the securities commits to "repay", in securities, the amount of the interests collected, thus avoiding a disorder in the operation.

Criteria for Appraisal and Registration

The foreign security granted as a loan by the Central Bank (lender) will be removed, at its market value, from the asset account that registers the holdings of foreign securities. In compensation, the asset account where the securities granted as a loan are registered will be increased. This account should be expressed in the same currency as the security in question, and its decrease will be equivalent to the amount of said security at market value.

Securities granted as a loan will be reappraised at their market value in the same fashion as the lender's own holdings; therefore, the result of such restatement will be applied to the same asset account that registers the securities granted as a loan and, as an offset, the resulting profit or loss will be reflected, in national currency, on the operating balance.

As long as the interests earned as a result of the securities loans are not collected, they will be registered as they are yielded, either by increasing the asset account where the original securities are registered, or in a different asset account expressed in foreign currency where the yielded but not charged interests are recorded. In any case, as an offset, the equivalent amount will be entered in national currency as profit in the operating balance.

When the operation is due, the original securities will be removed, at their market value, from the asset account where they have been registered and charged to the asset account where the holdings of foreign securities are recorded. At the same time, the interests collected by the lender will be charged to the asset account where the holdings of foreign exchange are registered and, as an offset, the relevant asset account will be credited.

The asset accounts where the original securities and the yielded but not collected interests are registered, are reappraised at the market exchange rate for the national currency in relation to the foreign currency in which they are expressed. The resulting profit or loss should be considered as a consequence of the exchange fluctuation, and will be registered in a profit and loss account or in a capital reserve account.

Rules for the Presentation of Financial Statements

The asset account where the original securities are registered will be presented in the general balance, expressed in the equivalent amount in national currency, under "International Reserve Assets."

It is advisable to report the asset account that registers the interests yielded but not collected in the general balance, under "International Reserve Assets", and expressed in the equivalent amount in national currency.

ANNEX XV

**REPURCHASE (REPO) AGREEMENT OPERATIONS
WITH FOREIGN SECURITIES**

Objective and Scope

To institute specific criteria for the appraisal, registration and presentation of the financial statements on the REPO and reverse REPO operations performed by the Central Bank with foreign securities.

These criteria do not include REPO or reverse REPO operations with foreign securities performed on behalf of third parties. These criteria are also applicable to REPO operations with gold.

Definitions and Characteristics

REPO operations. - Operations where the Central Bank (the part who takes the REPO) purchases securities from a counterpart (the part who takes the reverse REPO), paying a certain amount in foreign exchange; the counterpart commits, when the agreed term is due, to repurchase the securities from the Central Bank at the original sale price plus an additional amount previously agreed (premium).

Reverse REPO operations. - Operations where the Central Bank (the part who takes the reverse REPO) sells securities to a counterpart (the part who takes the REPO), in exchange of a certain amount in foreign exchange; the Central Bank commits, when the agreed term is due, to repurchase the securities from its counterpart at the original purchase price plus an additional amount previously agreed (premium).

The purpose of REPO operations is to produce additional income from the stock of foreign currency as a result of the premium paid by the counterpart as a compensation for the financing provided. On the other hand, reverse REPO operations are intended to respond to the temporary liquidity needs of the Central Bank because they cause an increase in the stock of foreign currencies.

REPO operations temporarily alter the configuration of reserve assets, because the decrease in the stock of foreign currency is compensated with the securities obtained in such operations; in reverse REPO operations, the increase in the stock of foreign currency is counterbalanced with the decrease produced in the

international reserve as a result of the commitment to repurchase the securities submitted under a REPO agreement. As the premium is yielded, a quantitative change is noticed in the reserve assets.

Criteria for Appraisal and Registration

REPO operations

The Central Bank is committed to return the securities received under REPO agreements, therefore, they should not be registered as part of the Central Bank's holdings of foreign securities. Such securities will be registered, at their contract value, in an asset account expressed in the same currency as the securities, thus crediting the asset account where the availability of foreign currencies is registered. Additionally, an alternative record of securities to be handed over to the counterpart could be kept, at their contract value, in a liability account expressed in the same currency as the securities received as a result of the REPO operation, and the foreign currency to be received from the counterpart when the operation is due will be registered in an asset account expressed in such currency.

The premium to be collected will be registered in the operating balance as it is yielded. As long as the earned premium is not collected, it will be registered by increasing the asset account recording the balance of securities received under REPO operations.

Keeping the above-mentioned record entails the registry of the yielded premium not collected in the asset account where the balance of foreign exchange due from the counterpart is registered. At the same time, the asset and liabilities accounts where the securities received and to be submitted, derived from REPO operations, are registered, will be reappraised at their market value and their effect will be registered in national currency in the operating balance. It should be noted that, since the value of the securities received and that of the securities to be submitted are equal, no profit or loss would result from restating said value.

The asset account where the securities received under a REPO agreement are registered and, if applicable, the liability account where the securities to be submitted are registered, and the asset account with the cash to be submitted by the counterpart are all reappraised at the market exchange rate for the national currency in relation to the foreign currency in which they are expressed. The resulting profit or loss should be considered as a consequence of the exchange fluctuation, and will be registered in a profit and loss account, or in a capital reserves account.

Reverse REPO operations

Since the counterpart is committed to return the securities received under REPO agreements to the Central Bank, these should not be removed from the Central Bank's holdings of foreign securities. Such securities will be registered, at their contract value, in a liability account expressed in the same foreign currency as such securities, and charged to the asset account where the availability of foreign currencies is registered. Furthermore, an alternative record could be kept on the securities to be received from the counterpart, at their contract value, in an asset account expressed in the same currency as the securities submitted under the REPO agreement, and the foreign exchange to be paid to the counterpart when the operation is due will be registered in a liability account expressed in the foreign currency to be delivered.

The premium to be paid will be registered, in national currency, in the operating balance as it is yielded. As long as the earned premium is not paid, it will be registered by increasing the liability account recording the balance of securities handed over as part of a REPO agreement.

Keeping the above-mentioned record entails the registry of the yielded premium not collected in the liability account where the balance of foreign exchange to be paid to the counterpart is registered. At the same time, the asset and liabilities accounts where the securities received and to be submitted, derived from REPO operations, are registered, will be reappraised at their market value and their effect will be registered in national currency in the operating balance. It should be noted that, since the value of the securities received and that of the securities to be submitted are equal, no profit or loss would result from restating said value.

The liability account where the securities submitted under a REPO agreement and, if applicable, the asset account where the securities to be received are registered and the liability account with the cash to be submitted to the counterpart are all reappraised at the market exchange rate for the national currency in relation to the foreign currency in which they are expressed. The resulting profit or loss should be considered as a consequence of the exchange fluctuation, and will be registered in a profit and loss account or in a capital reserves account.

Rules for the Presentation of Financial Statements

REPO operations

The asset account that registers the securities received under REPO agreements and, if applicable, the liability account that registers the securities to be submitted and the asset account that registers the cash to be received from the counterpart should be presented in the general balance in the equivalent amount in national currency under "International Reserve Assets," so that the net result of adding all the above mentioned accounts compensates the decrease registered in the holdings of foreign exchange due to the performance of REPO operations and to

allow only for a quantitative alteration of the reserve assets as a consequence of the effect produced by a premium that has been yielded but not collected.

Reverse REPO operations

The liability account that registers the securities submitted under REPO agreements and, if applicable, the asset account that registers the securities to be received and the liability account that registers the cash to be handed over to the counterpart should be presented in the general balance in the equivalent amount in national currency under "International Reserve Assets," so that the net result of adding all the above mentioned accounts compensates the increase registered in the holdings of foreign exchange due to the performance of reverse REPO operations and to allow only for a quantitative alteration of the reserve assets as a consequence of the effect produced by a premium that has been yielded but not collected.

ANNEX XVI

**OPERATIONS WITH INTERNATIONAL FINANCIAL
ORGANISATIONS**

Objective and Scope

To establish specific rules for the valuation, recording and presentation in Central Bank's financial statements of contributions, investments and deposits held on behalf of international financial organisations.

These rules do not include operations on behalf of international financial organisations which the Central Bank effects through third parties.

Definitions and Characteristics

International Financial Organisations (IFO): Comprises foreign institutions for international financial cooperation.

Contribution: Is the subscription fee or quota that Central Banks pay for membership in these organisations which enables them to benefit from credit made available by these international financial organisations. Payment of this contribution may be made on the basis of agreement with each organisation, in foreign or local currency, or by a combination of both. It may be paid immediately by means of a transfer of foreign currency, or deposited in national currency in the international financial organisation's account at the Central Bank.

Investments: Are acquisitions made by the Central Bank, of shares, interests in partnerships, or similar instruments, issued by an international financial organisation. Payment for these investments may be made, in keeping with the agreements made with each organisation, by means of an immediate transfer of foreign currency or a deposit in the IFO's account at the Central Bank. Such investments generate dividends which may be distributed by the organisation in cash, in stocks, partner's shares or other securities.

Deposits: Are monies lodged in the international financial organisation's account at the Central Bank in payment of contributions. These payments may be made in foreign or local currency in keeping with agreements made with each organisation. They are derived from contributions or deposits for investments made on behalf of an IFO.

Maintenance of Value: Is the revaluation of the national currency's contribution and/or amounts deposited to the account of an international financial organisation, equivalent to the foreign exchange that it represents when valued at the market rates of exchange.

Rules for valuation and recording entries

The foreign currency contribution paid to an international financial organisation will be recorded in an asset account denominated in the foreign currency in which payment is made. As a contra entry, the payment would be recorded, in keeping with the agreement with each organisation as a decrease in the holdings of the foreign currency in which such payment is made, or otherwise as an increase in the international financial organisation's liability account in which the foreign currency is recorded.

The local currency contribution paid to an IFO will be recorded in the international financial organisation's asset account in local currency, equivalent to the foreign currency contribution, at the market exchange rate. As a contra entry, an increase will be recorded in the international financial organisation's national currency liability account.

The acquisition cost of Central Bank's investments in shares, interests in partnerships, or similar instruments issued by an international financial organisation, will be recorded in an asset account denominated in the foreign currency in which the specific investment is made. As a contra entry, and with prior agreement with the international financial organisation, a reduction may be made in the asset account in which the holdings of foreign currency was recorded, or otherwise, an increase may be recorded in the liabilities account in which the international financial organisation maintains its foreign currency in the Central Bank.

Cash dividends paid by international financial organisations on shares, interests in partnerships or similar instruments will be recorded, at the moment they are received, by an increase in the asset account in which the instruments in the international financial organisation is recorded and, in a contra entry, the equivalent in national currency at market rates of exchange, will be recorded in the operating results.

Interest paid by the international financial organisation on shares, interests in companies or similar titles, will be recorded, at the moment they are received, by increasing the asset account in which the international financial organisations' investments are recorded, and in a contra entry, the equivalent in national currency will be recorded at the market rates of exchange in the Operating Results.

The asset account, which records the contribution, investments and accrued but unpaid foreign currency interest, as well as the liabilities account, which record the deposits in foreign currency, will be revalued at the rates of exchange in force for the foreign currency in which it is denominated. The profit and loss from these operations should be considered to be the effects of exchange rate fluctuations, which should be recorded in an account in the Operating Results or in a capital reserve account.

The asset accounts which record contributions and the liability accounts which record deposits made in national currencies are subject to maintenance of value adjustments, such that in the case of contributions, the asset accounts will be increased and in the case of deposits, a different liability account will be credited which will correspond to the liability account when the same organisation solicited payment of maintenance of value adjustments on its deposits.

The gain or loss obtained on these transactions should be considered as a difference due to exchange rate fluctuations and will be recorded in an account in the operating results or as a capital reserve.

Rules for presentation in the Financial Statements

The asset accounts which record investments made with the international financial organisations in national currencies as well as in foreign currencies at its equivalent value in national currency, will be shown as an integral part of the balance sheet under a heading entitled "Deposits of International Financial Organisations".

The asset account which records the investments in foreign currencies made in IFO's, at its equivalent in national currencies, will be shown as an integral part of the balance sheet under the heading entitled "Other Assets".

It is recommended that the liability accounts which record deposits made in favour of IFO in national currencies as well as in foreign currencies, as well as those which record maintenance of value adjustments, and assets accounts which record accrued unpaid interest to IFO, be presented at its equivalent value in national currencies as an integral part of the balance sheet under a heading entitled "Deposits of International Financial Organisations".

ANNEX XVII

**CREDIT AND DEPOSIT OPERATIONS WITH FINANCIAL
INTERMEDIARIES**

Objective and Scope

To establish specific rules for the valuation, recording and presentation in financial statements of credit and deposit operations which central banks carry out with financial intermediaries.

Definitions and Characteristics

Financial Intermediaries: Comprise of national banking institutions, be they commercial or for economic development, Stock Exchanges, as well as agencies and/or representatives of foreign banks established in the national territory and other institutions which the Central Bank so authorises.

Credit Operations: Are those operations whereby the Central Bank provides monetary resources to Financial Intermediaries up to the limits prescribed in its governing Legislation. Credit to financial intermediaries may be granted to achieve two fundamental objectives: 1) direct financial support, and 2) expansion of currency in circulation in the country's economy, which in addition to the governing legislation, the credit which the Central Bank grants to financial intermediaries must be in keeping with the monetary policy objectives of the financial authorities of the country.

Deposit Operations: Are those operations whereby the Central Bank receives and maintains deposit accounts in favour of financial intermediaries subject to the limits prescribed in its governing legislation. Bank deposits from financial intermediaries may be made in current accounts or in demand deposit accounts, which permits the regulation of money in circulation in the economy of the country. In addition to the provision of the governing Legislation, the arrangement of demand deposits for monetary policy regulation purposes, must be in keeping with the monetary policy pursued by the financial authorities in the country.

Valuation and recording rules

The original amounts of credit granted to the financial intermediaries will be recorded in asset accounts. These accounts should be categorised as specific accounts with attention paid to their origin and nature. A contra entry will be made, crediting the amount referred to in a current account at the Central Bank,

or in the absence of such an account at a banking institution designated by the financial intermediary.

Bank deposits received from financial intermediaries will be recorded in liability accounts. These accounts will be categorised as specific accounts and attention will be paid to their origin and nature. A contra entry will be made for debiting the current accounts maintained at the Central Bank or in the absence of such accounts at a banking institution designated by the financial intermediary.

The interests generated, in this case, on credits granted to financial intermediaries, will be recorded in the operating results on an accrual basis. At the same time, uncollected accrued interest will be recorded in an asset account.

The interests earned on deposits made by the financial intermediaries in the Central Bank will be recorded on an accrual basis, in the operating results. At the same time, unpaid accrued interests will be recorded in liability accounts.

Presentation rules in Financial Statement

The asset accounts which record credits granted to financial intermediaries should be shown in the balance sheet under a heading entitled "Credit to Financial Intermediaries".

Liability accounts which record deposits made by financial intermediaries should be shown in the balance sheet under the heading of "Financial Intermediaries Deposits".

When bank deposits are made in financial intermediaries' current accounts at the Central Bank, it is recommended that they be presented in the balance sheet under the heading of "Monetary Base" together with the money put into circulation.

The asset account that records accrued unpaid interests should be presented under the heading of "Other Assets" in the balance sheet.

The liability account which records the unpaid accrued interests may be presented under the heading of "Other Liabilities" in the balance sheet.

ANNEX XVIII

GOVERNMENT'S CREDIT AND DEPOSIT OPERATIONS

Objective and Scope

To establish specific rules for the valuation, recording and presentation in the financial statements of debit and credit transactions carried out by Central Banks for the Government.

These specific rules do not include credit and deposit operations arising from the issue and placement of government securities.

Definitions and Characteristics

Credit Operations: Are those through which the Central Bank provides monetary resources to the Government up to the limits prescribed in their governing legislation. The Central Bank may grant financing to Government by means of a simple credit contract.

Deposit Operations: Are those where the Central Bank receives and establishes deposit accounts on behalf of the Government in keeping with the limits provided in its governing legislation. Government deposits may be made into a current deposit account or other types of deposits, be it on demand or on terms.

Valuation and recording rules

The original amounts of credits granted to the Government will be recorded in an asset account. In a contra entry, on the instructions of the Government, this amount may be credited to the Government's current account at the Central Bank or otherwise, may be transferred from the Government's account to a designated beneficiary's account by way of a request or instruction.

Banks deposits of monies received for the Government will be recorded at nominal value in liabilities accounts which are specifically titled according to their origin and nature. As a contra entry, the amounts will be debited to the current account which the Central Bank maintains for the government, or otherwise to a designated beneficiary's account.

Interest earned from credits and financing granted to the Government will be recorded in the operating results on an accrual basis. As long as accrued interests remain uncollected, it will be recorded in an asset account.

Interests earned on deposits made to the Government's accounts will be recorded in the operating results on an accrual basis. As long as they remain unpaid they will be recorded in a liability account.

Presentation rules in Financial Statement

The asset account that records simple credits granted to the Government should be shown in the balance sheet under a heading titled "Credit to Government".

The liability account that records deposits made in favour of the government should be shown in the balance sheet under the heading of "Government Deposits".

In particular cases where there are deposits in current accounts of the government, it is recommended that these be shown in the balance sheet under the heading of "Government Current Account Deposits".

The asset account, which records uncollected accrued interest, should be presented in the balance sheet under the heading of "Other Assets".

The liabilities account, which records unpaid accrued interest, should be presented in the balance sheet under the heading of "Other Liabilities".

ANNEX XIX

**OPERATIONS WITH SECURITIES ISSUED BY THE CENTRAL
BANK**

Objective and Scope

To establish specific rules for the valuation, recording and presentation in financial statements of the operations which, when the governing legislation authorizes the Central Bank to issue bonds or securities, it carries out through the issue, placement and sale of bonds or securities, as well as making repurchase arrangements (Repo) with financial intermediaries.

Definitions and Characteristics

Securities issued by the Central Bank: Are all those claims issued by the Central Bank with a guarantee of repayment. These claims are payable at maturity in national currency within the national territory. The placement of these internal debt instruments constitutes an important mechanism for regulating liquidity in the money market and facilitates the conduct of monetary policy implementation. Bonds and securities issued by the Central Bank can be classified in two broad categories according to their characteristics:

(a) Discount Securities: Are those issued at a price lower than the face value, and the cash flow or profit generated arises from the difference between the purchase value and the face value, obtained on maturity of the security.

(b) Bonds: Are those in which the cash flow or profit results from the difference between the acquisition cost and the face value at maturity (price), as well as the interest accrued, which are collected in instalments at distinct times during the life of the bond.

Market Value: Is the reference value in the national markets over the quoted price of the bonds or securities issued by the Central Bank.

Financial Intermediary: Comprises national banking institutions, be they commercial or for economic development, as well as the agencies and/or representatives of foreign banks established in the national territory, stock exchanges and other institutions so authorised by the Central Bank.

Placement of bonds or securities in the primary market: Is the placement of securities issued by the Central Bank, through auction sales, which are carried out at the request of the financial intermediaries.

Repo Operations: Are those in which the Central Bank (the borrower) purchases its own securities from a financial intermediary (the lender), giving in exchange a certain amount of national currency. The financial intermediary is obliged, on the expiration of the time agreed upon, to repurchase the bonds or securities from the Central Bank at the original price plus an additional amount previously agreed upon (premium). The conduct of Repo operations constitutes a mechanism of monetary policy by which the Central Bank regulates the liquidity in the financial system.

Valuation and recording rules

Issue and Placement of Bonds or Securities issued by the Central Bank

The issue of securities by the Central Bank can be recorded in memoranda accounts indicating the amount, at face value, of the securities issued. The record in the memoranda account should serve to monitor the status of securities issued by the Central Bank, so that securities not yet placed may be recorded as "Unplaced Securities".

Those securities issued by the Central Bank to financial intermediaries, will be recorded at the value of the issue, in a liability account. A contra entry will be made debiting the current account of the financial institution that acquired the bonds or securities issued by the Central Bank. Additionally, it can be recorded in memoranda accounts, at face value of the securities issued to the financial intermediaries. This will have the effect of reducing the "unplaced securities" and increasing the "placed securities".

Restatement of Values at Market Prices

The restatement at market values of bonds or securities in circulation which are issued by the Central Bank, will be entered in the same liability account in which they are recorded. As a contra entry, the profit or loss obtained will be included in the operating results. Additionally, in the case of securities held to maturity, when the accrued interests remain unpaid, these amounts will be recorded, as they accrue, by increasing the same liability accounts and as a contra entry, the financial charge will be included in the operating results. When accrued interests are paid, a decrease will be recorded in the liability account in which securities in circulation issued by the Central Bank are recorded and as a contra entry, the current account of the financial intermediary which holds the security will be credited.

Maturity of Central Bank Securities

The maturity (redemption) of securities issued by the Central Bank, which are held by financial intermediaries, will be recorded by crediting the current account

of the financial intermediary with the face value of the bonds or securities redeemed; and, a contra entry will be made debiting the liability account which records the bonds or securities in circulation issued by the Central Bank. Additionally, cancellation of amounts paid to financial intermediaries may be made in memoranda accounts, at face value, in the "Securities Placed" account.

Repo Operations

Since the Central Bank is obliged to return the securities received under Repo agreements, these should be recorded, at market value, in an asset account, and a contra entry will be made crediting the financial intermediary's current account with the amount paid on purchase of the repo security. Additionally, the securities delivered to the financial intermediary can be separately recorded, at market value, in a liability account and a corresponding entry will be made in an asset account for the cash received from the same financial intermediary on expiration of the operation.

The premium due will be recorded in the Operating Results on an accrual basis. At the same time, the uncollected premium will be recorded by increasing the asset account which records the balance of repo securities received.

If the separate record previously mentioned is maintained, the accrued uncollected premium will be recorded in the asset account which has the balance received from the financial intermediaries and simultaneously the asset and liability accounts which record the securities will be revalued and those derived from Repo operations will be revalued at market prices and their effects will be shown in the operating results.

It should be noted that since the value of securities received and those redeemed are equal, no profit or loss would result from a restatement of their values.

Rules for Presentation in the Financial Statements

The liability account which records securities issued and placed by the Central Bank, should be shown in the balance sheet under the heading of "Monetary Policy Regulation Securities".

The asset account which records securities received in repo agreements, the liability account that records the securities delivered and the asset that records the cash received from financial intermediaries should be shown in the balance sheet under the heading "Credit to Financial Intermediaries".

The accounts which record the control status of securities issued by the Central Bank, should be shown in the balance sheet under the heading of "memoranda accounts".

ANNEX XX

OPERATIONS WITH GOVERNMENT BONDS OR SECURITIES

Objective and Scope

To establish specific rules for the valuation, recording and presentation in financial statement of operations in government securities which the Central Bank conducts as financial agent of the government, as well as those conducted by the Central bank for monetary policy regulation purposes. These include purchase and sale of bonds and securities in the secondary market, acquisition of bonds or securities on the primary market, repurchase agreements (repo's), and reverse repo's operations in government bonds and securities traded with financial intermediaries.

Definitions and Characteristics

Bonds or Government Security – Are all those credit instruments generally issued by national government treasuries whose repayment are guaranteed by the government. These securities are payable on maturity in national currency of the territory. The placement of these internal debt instruments constitutes an important financial source for local government treasuries. Government securities or bonds can be classified into two broad groupings, according to their characteristics:

Discount Securities: Are those securities acquired at a price lower than their face value, the cash flow or profit stems from the difference between the acquisition price and the face value obtained on maturity of the security.

Bonds: Are those securities in which the cash flow or profit is derived from the difference between the acquisition price and the face value of the security on maturity (price), as well as the interest earned, which is collected at appointed times during the life of the security.

Market Value: Is the reference price in the national markets above which the security issued by the government is quoted.

Financial Intermediaries: Comprise national banking institutions, be they commercial or for economic development, such as agencies and/or representatives of foreign banks established in the national territory, stock exchanges and other institutions which the Central Bank authorises.

Placement of government bonds and securities in the primary market: Is the allocation of bonds or securities, issued by the government for sale by auction, to financial intermediaries who request them. It should be pointed out that the Central bank, in keeping with its governing legislation, may act as the government's financial agent for the distribution of bonds or securities which they issue. As a general rule, the Central Bank is prohibited from acquiring government bonds and/or securities in the primary market, except when such acquisitions are done for monetary policy regulation purposes.

Purchase for monetary policy regulation purposes: Is the acquisition of government bonds or securities by the Central Bank in the primary market and the placement of a cash deposit to the government's account of an amount equal to the value of the bonds or securities acquired. The terms and yield on these bonds are equal to the value of securities acquired.

Purchase of government bonds or securities on the secondary market: Is the operation by which the Central Bank acquires bonds or government securities, previously acquired by a financial intermediary in the primary market, by delivering a specific sum of money in payment of the contract price. The Central Bank's holdings of government securities constitutes an important financial asset and additionally, it facilitates the Bank's operation in the money market.

Sale of government bonds on the secondary market: Is the operation by which the Central Bank delivers bonds or government securities, previously acquired in the primary or secondary market, to a financial intermediary. In return, the financial intermediary pays the Central Bank a certain sum of money according to the contract price. The sale of government securities held by the Central Bank, on the secondary market, can be an important mechanism to regulate liquidity in the financial system.

Repurchase Operations: Are those operations in which the Central Bank (Borrower) purchases government bonds or securities from financial intermediaries (Lenders) for a specific sum of national currency. The financial intermediaries are then obliged, when the specific term has expired, to repurchase those bonds from the Central Bank, at the original sale price plus an additional amount previously agreed upon (premium). Those repurchase operations constitute, for the Central Bank, a mechanism of monetary control by which it provides liquidity to the financial system.

Reverse Repo operations: Are those operations in which the Central Bank (lender) sells government bonds or securities to a financial intermediary (borrower), for a specific sum of national currency and the Central Bank is obliged, when the specific term has expired, to repurchase those bonds from the financial intermediary at the original purchase price plus an additional amount previously agreed upon (premium). The utilisation of Reverse Repo operations

constitutes a mechanism of monetary control through which excess liquidity is removed from the financial system.

Valuation and recording rules

Issue and Distribution of Government Bonds or Securities

When the governing legislation authorises the Central Bank to act as the government's financial agent for the issue and distribution of government bonds or securities, these government securities may be recorded in a memorandum account, at face value. Preferably, this entry in the memorandum account would serve as a control record for bonds or securities issued by the government so that the bonds issued, but not distributed, could be recorded as "Bonds Issued but not distributed".

The allocation of government bonds and securities in the primary market among financial intermediaries (distribution) will be recorded by crediting the current account, which the government maintains in the Central Bank, with the sum paid by the financial intermediaries. As a contra entry, the current accounts of the financial intermediaries which purchased the bonds and securities, issued by the government, will be debited. Additionally, the value of the government bonds and securities placed may be recorded at face value in a memorandum account. This action will decrease the "Undistributed Securities" and increase the "Distributed Securities".

Purchase of Government Bonds or Securities for monetary policy regulation purposes

The government bonds or securities which the Central Bank purchases in the primary market for monetary policy regulation purposes will be recorded at the acquisition value. This will increase the government securities asset account, which records the holding of government securities. As a contra entry, the amount paid for the government bonds or securities will be credited to a liability account which records deposits made by the Government for monetary policy regulation purposes. Additionally, the government bonds or securities acquired by the Central Bank on the primary market, may be recorded, at face value, in a memorandum account. This will effectively decrease the "Undistributed Securities" and increase the "Securities distributed for monetary policy regulation purposes".

Buying and Selling Government Bonds or Securities on the secondary market

Government bonds or securities, which the Central Bank purchases from the financial intermediaries on the secondary market, will be recorded at acquisition cost in the asset account which records government holding of bonds or

securities. In a contra entry, the financial intermediary's current account will be credited with the contract amount paid. When bonds bearing accrued interest are acquired at maturity, an increase, equal to the interests purchased, will be included in the price paid and will be recorded in the government's asset holdings account of securities. When the market value of the bonds or securities purchased is higher than the price paid for them, the difference will be recorded as a profit in the operating results. If the opposite occurs, it will be recorded as a loss in the operating results.

When the sale of a government bond or security is effected, this will decrease the asset account that records holdings at market value (including interest accrued on bonds or securities at maturity). As a contra entry, the current account of the financial intermediary, which acquired the government bond, will be debited for an amount equal to the contract price. When the market value of the bond or securities sold is less than the price paid for it, the difference will be shown as a profit in the operating results. If the opposite occurs, it will be shown as a loss.

Revaluing securities at market prices

The revaluation of holdings of government bonds or securities at market values will be recorded in the same asset account in which holdings are recorded. As a contra entry, the profit or loss obtained will be transferred to the operating results. In the case of bonds held to maturity, accrued interest will be recorded on an accrual basis thereby increasing the value of the holdings. As a contra entry, the profit obtained will be recorded in the operating results. When the interest is paid, a decrease will be recorded in the asset account of the government holdings of bonds and securities. By way of a contra entry, the government's current account in the Central Bank will be debited.

The government monetary policy regulation deposit account, arising from the Central Bank's acquisition of bonds or securities on the primary market, will be revalued at the market price of the securities, plus interest accrued to maturity. In the event that Central Bank sells the bonds or securities acquired for monetary policy regulation purposes on the secondary market, these may be used as a reference for revaluing the monetary policy regulation deposits in the memorandum control account. The profit or loss from revaluing monetary policy regulation deposits will be recorded in the operating results.

Redemption of Government Bonds or Securities

The maturity of government bonds or securities held by financial intermediaries, will be recorded by crediting the face value of the securities redeemed to the financial intermediaries' current account and by charging the government's current account held at the Central Bank. Additionally, the cancellation of the securities for which payment have been made to the financial intermediaries, at

nominal values, can be recorded in the memorandum account as "Distributed Securities".

The redemption of bonds or securities held by the Central Bank, which have been acquired through purchases in the primary market (for monetary policy regulation purposes) as well as those purchased on the secondary market, will be recorded as a decrease in the asset account that records the holdings, at nominal value, of government bonds or matured securities. In a contra entry, the government's current account in the Central Bank will be debited. Additionally, a cancellation may be recorded, at nominal value, in the memorandum account entitled "Distributed Securities" and/or "Monetary policy regulation securities" depending on which has been liquidated by the Central Bank.

In the case of bonds or securities acquired for monetary policy regulation purposes, simultaneous with the previous operation, the maturity of the monetary policy regulation deposit will be recorded at face value of the securities that have matured. As a contra entry, the government's current account will be credited with the yield from cancellation of the deposit.

Repurchase Operation (REPO)

Since there is an obligation to return Repo securities, these should not be included in the government holdings of bonds or securities with the Central Bank. The securities received should therefore be recorded, at market value, in an asset account, and, as a contra entry, the financial intermediary's current account should be credited with the amount paid for the purchase of Repo securities. Additionally, the securities delivered to the financial intermediary will be recorded, at market value, in a Liability account which will correspond to the cash received from the said financial intermediary. At the expiration of this operation, the amount will be recorded in an asset account.

The premiums due will be recorded, on an accrual basis, in the operating results. Meanwhile, uncollected premiums accrued will be recorded as an increase in the asset account which has the balance of securities received on repurchase.

If the record previously mentioned is retained, the uncollected accrued premium will be recorded in an asset account which carries the balance received from the financial intermediaries and simultaneously the asset and liability accounts that record the government bonds or securities received and handed over from repo operations, will be revalued at the market price, and the proceeds will be recorded in the operating results. It is fitting to point out that due to the equality of the value of bonds received and handed over, no profit or loss will accrue as a result of restating such values.

Reverse Repurchase Agreements (Reverse Repo)

Since there exists the obligation of the financial intermediary to return to the Central Bank the Repo securities received, these should not reduce the Bank's holdings of government bonds or securities. Such Repo securities will be recorded, at their market value, in a liability account, and, a contra entry will be made debiting the financial intermediary's current account with the amount collected from the sale of the Repo securities. Additionally, there should be a corresponding entry for the securities received from financial intermediaries which will be recorded, at their market value, in an asset account corresponding with the cash delivered to the financial intermediary on the maturity of this operation. That amount will be recorded in a liability account.

The premium payable will be recorded in the operating results on an accrual basis. Meanwhile the unpaid premium accrued will be recorded as an increase in the liability account which has the balance of securities handed over.

If the record previously mentioned is retained, the uncollected accrued premium will be recorded in a liability account which carries the balance paid to the financial intermediaries. Simultaneously, the liability and asset accounts that record the government bonds and securities received and paid will be revalued at the market price and the proceeds recorded in the operating results. It is fitting to point out that due to the equality of the value of bonds received and handed over, no profit or loss will accrue as a result of restating such values.

Rules of presentation in the Financial Statements

Depending on the governing legislation of each Central Bank, as well as decisions adopted by its government agencies, the asset account in which government holdings of bonds or securities are recorded and the liability account in which monetary policy regulation deposits are recorded may be presented in the financial statement as follows:

- a. Present both the asset account which records the government holdings of bonds or securities and the liability account which records the monetary policy regulation deposits. This is to show the holdings of bonds and government securities net once the monetary policy regulation deposits are discounted. In such a case, if the net position of government bonds or securities is large, this will be presented in the balance sheet as an integral part of the assets under the heading of Government Securities. As a contra entry, it would be shown as a liability under the heading of Monetary Policy Regulation Deposits.
- b. The asset account in which the holdings of government bonds or securities is recorded should be presented in the balance sheet under the heading of "Government Securities", and the liability account which records monetary policy regulation deposits, should be presented under the heading of "Monetary Policy Regulation Deposits"

The asset account in which government REPO bonds or securities are recorded, and correspondingly, the liability account which records securities delivered and the asset account which records cash received from financial intermediaries should be shown in the balance sheet under the heading of "Credit to Financial Intermediaries".

The liability account that records government Repo bonds or securities delivered, and correspondingly, the asset account that records the bonds receivable and the liability that registers cash to be paid to the financial intermediaries, should be shown in the balance sheet under the heading "Financial Intermediaries Deposits".

The accounts that control the status of bonds or securities issued by the government, should be shown in the balance sheet as a part of the memorandum accounts.