



MONETARY  
AND CAPITAL  
MARKETS

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A CENTRAL BANK'S GUIDE TO

# International Financial Reporting Standards

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# ABBREVIATIONS AND ACRONYMS

AC	Amortized cost	PPE	Property Plant and Equipment
BCB	Central Bank of Brazil	PRGT	Poverty Reduction and Growth Trust
BIS	Bank for International Settlements	PV	Present Value
BOA	Bank of Albania	MCM	Monetary and Capital Markets Department
BOC	Bank of Canada	MMA	Maldives Monetary Authority
BOE	Bank of England	NAB	New Arrangements to Borrow
BOJ	Bank of Jamaica	NB	Norges Bank
BOT	Bank of Tanzania	NBG	National Bank of Georgia
BOU	Bank of Uganda	NBM	National Bank of Moldova
CBBH	Central Bank of Bosnia and Herzegovina	NBU	National Bank of Ukraine
CBC	Central Bank of Chile	RAMP	Reserves Advisory and Management Program
CBDC	Central Bank Digital Currency	RBM	Reserve Bank of Malawi
CBK	Central Bank of Kenya	RCF	Rapid Credit Facility
CBS	Central Bank of Seychelles	REPO	Repurchase Agreement
CBSL	Central Bank of Sri Lanka	RFI	Rapid Financing Instrument
DGF	Deposit Guarantee Fund	RTGS	Real Time Gross Settlement
EAD	Exposure at Default	RUD	Ruritanian Dollar (currency of a neighboring country)
ECF	Extended Credit Facility	SARB	South African Reserve Bank
ECL	Expected Credit Loss	SBA	Stand-By Arrangements
EFF	Extended Fund Facility	SCF	Standby Credit Facility
ELA	Emergency Liquidity Assistance	SDR	Special Drawing Rights
ESF	Exogenous Shock Facility	SPPI	Solely Payments of Principal and Interest
FCL	Flexible Credit Line	SWIFT	Society for Worldwide Interbank Financial Telecommunication
FIFO	First-in, First-out	USD	United States Dollars
FV	Fair Value		
FVOCI	Fair value through Other Comprehensive Income		
FVPL	Fair Value through Profit or loss		
FX	Foreign Exchange		
GRA	General Resources Account		
IASB	International Accounting Standards Board		
IAS	International Accounting Standards		
IBRD	International Bank for Reconstruction and Development		
IFRIC	IFRS Interpretation Committee		
IDA	International Development Association		
IFRS	International Financial Reporting Standards		
IMF	International Monetary Fund		
IPSAS	International Public Sector Accounting Standards		
LC	Utopian Local Currency		
LGD	Loss Given Default		
LOLR	Lender of Last Resort		
OCI	Other Comprehensive Income		
OMO	Open Market Operations		
PD	Probability of Default		
PLL	Precautionary and Liquidity Line		

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# INTRODUCTION

## Objective

The objective of this guide is to provide central banks with a model set of International Financial Reporting Standards (IFRS)-compliant financial statements (hereafter referred to as the model statements) to be used as a handbook by central banks in developing or improving their external reporting.

The model statements are not meant to be interpreted as the definitive application of IFRS for a central bank but rather as guidance as to the types of formats and disclosures that should be considered when a central bank reports under IFRS. Appendix I provides guidance for first-time adopters of IFRS.

## International Practices

About one-quarter of the world's central banks apply IFRS with approximately a quarter more looking to IFRS for further guidance where their local standards do not provide enough guidance. Given the varied mandates and types of policy operations undertaken by central banks, there also exists significant variation in practice, style, and the extent of the financial disclosures in both the primary statements and in the note disclosures. By their nature, central banks are unique in their jurisdiction and so do not always have local practices and examples they can follow. Although the major accounting firms have created model disclosures intended for commercial banks, these are often not totally appropriate for a central bank.

The application of IFRS across central banks differs based on the mandate of the central bank and the capacity of the accounting profession in the specific jurisdiction. An analysis of international practices, such as those undertaken in preparing these model statements, may help address questions about the structure of the statements themselves as well as the organization of the note disclosures.

As a consequence, each central bank following IFRS has largely developed its own disclosures with only limited reference to others. Input from the external auditors has been significant, but some of this has been determined

by the approach used by the specific auditor's style for commercial banks rather than central banks. Auditors do not always fully appreciate the differences between a commercial bank and a central bank, which has a different role and undertakes transactions to meet its policy objectives. This has often led to an over emphasis of items not material in the context of a central bank and insufficient disclosures on operations or accountabilities specific to the functions of the central bank.

## Transparency and Accountability

With greater independence comes the need for greater transparency and accountability. Transparency relates to the flow and accessibility of information: the ease with which stakeholders can understand and interpret the central bank's actions which, in turn, would inform the judgment stakeholders make on the central bank's performance and broad compliance with its mandate. Transparency contributes to increasing a central bank's accountability and is a tool within the broader governance and accountability frameworks of a central bank.

A central bank's external reporting of its financial position can be considered a fundamental component in its transparency and accountability and applying an internationally recognized reporting standard such as IFRS adds to the credibility of this transparency. One of IFRS's key strengths is its disclosure requirements. Granted, IFRS is designed for general for-profit commercial organizations. Nonetheless it can, and has been, successfully adopted by central banks worldwide. In 2020, approximately 50 central banks complied with IFRS for their external financial reporting.

Central bank independence enables a central bank to adjust its policies and actions as it deems necessary to attain the objectives under its mandate. However, central banks do not operate in a vacuum and should, within limits, be transparent about their operations and activities to enhance their credibility and effectiveness. This transparency is an integral component of the central bank's accountability. Central banks are expected to explain and justify their actions and give an account of the decisions made in the execution of their

responsibilities and the use of the resources that are entrusted to them.

In general, external accountability arrangements cover how the central bank reports, explains, and justifies its decisions and actions; to whom the central bank reports; and how the central bank ensures timely access to information, including its financial statements.

The IMF has highlighted the need for appropriate central bank transparency arrangements as one of the sound principles of monetary policy, allowing for proper public accountability of the central bank for fulfilling its objectives. Transparency in its disclosures needs to be weighed against confidentiality—it cannot be indiscriminate or excessive as there are many central bank activities where there are legitimate needs for confidentiality. A central bank needs to tailor its financial disclosures to better inform the reader of its operations, the financial implications of those operations, and the risk exposures in conducting them.

## Approach Followed

The guidance in this handbook is based on a combination of country cases and expert knowledge provided by a panel of central bank accountants. The guide takes into consideration academic literature; relevant international standards; and central bank reporting practices worldwide. The model statements were developed based on research conducted by the IMF along with participants of 12 IFRS-compliant, or soon to be compliant, central banks from around the globe (a list of project participants is included in the acknowledgments). The research included a review of 20 publicly available English version IFRS-compliant financial statements from countries around the world, as well as the IFRS themselves and work of the International Accounting Standards Board (IASB). In most cases, the reference financial statements were those for financial periods ending December 2018 or early 2019 as these would include application of the most up to date IFRS, including the adoption of IFRS 9—Financial Instruments.

The project team identified what it believed to be representative of best practice disclosures. Given that mandates and policy operations differ from one central bank to another, no single central bank included the complete set of disclosures covering the broad array

of practices as contained in the model statements. The model statements attempt to provide examples of disclosures on the more common operations of a central bank.

The selection of the specific disclosures included in the model statements is, of course, somewhat subjective. Team members were assigned different sections of the typical note disclosures and identified what they believed represented the most readable and transparent disclosures. Each member's research was then reviewed by another member and then presented to the entire team. Using workshop settings, the project team debated the different models, their completeness and applicability. Using the information gathered through the debate, team members then updated their recommendations. The individual recommendations were then compiled along with a mock set of numeric statements and tables which were then reviewed by the team to ensure completeness. It is noted that the model statements cannot claim to be 'best practice' disclosures, but it is felt that the model statements are representative of good and transparent disclosures adopted globally.

The model statements are based on an imaginary but representative central bank – the Bank of Utopia. A set of numbers was created for the purposes of the financial statements and note disclosure tables. These have been prepared with the intention of being representative of a typical central bank and include the assets, liabilities, income and expenditure commonly found in central banks. In particular, the balance sheet includes both foreign currency and domestic currency assets and liabilities. Most central banks around the world both hold and manage the foreign reserves and conduct monetary policy operations in their own currencies. The model statements do not include examples of hedging practices as these are not generally adopted by central banks and would make the model statements overly complex.

The choice of assets and liabilities and the operations included in the financial statements are not intended to indicate any recommendation or opinion about the policy operations or policy tools that a central bank may adopt. They merely reflect the most typical ones adopted by central banks.

The assets and liabilities are those currently found in central bank balance sheets. Items that may appear in the future have not been included. Central bank digital

currencies (CBDCs) have not been reflected in this model set of statements. CBDCs were under discussion in several jurisdictions when this guide was drafted, but no IFRS-compliant central banks have decided to implement CBDCs. Therefore, there is no model note on this topic in the respective financial statements. Once central banks decide to implement CBDCs and the uncertainties existing on their accounting position are addressed, balance sheets and income statements would be impacted and more comprehensive notes will be shown in the financial statements.

The same approach has been applied for the COVID-19 pandemic, although a more general guidance is provided under the credit risk management user guidance section.

## Application of Materiality

The model statements include a wide and varied level of disclosures representing operations of a typical central bank. The inclusion of an example disclosure is not intended to indicate that the central bank should make the disclosure—this decision needs to be considered in the context of materiality to the reader, which is both a quantitative and qualitative issue.

The IASB Practice Statement 2 on materiality contains the following guidance:

Information is material if omitting, obscuring, or misstating it could influence decisions that primary users make on the basis of financial information about a specific reporting entity.

In other words, materiality is an entity-specific aspect of relevance based on the nature, magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.

IFRS are intended for general purpose financial statements. The objective, as stated by the IASB, is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions relating to providing resources to the entity. Such criteria do not fit central banks exactly, but for a central bank, users can be considered to include the general public as users of banknotes; the Ministry of Finance; and the legislative authorities. Other users include international bodies

and foreign creditors (e.g. central banks, commercial banks, financial institutions).

A central bank's key responsibilities are to conduct policy, not to generate revenue or profits. It achieves this primarily through the use of financial assets and liabilities. Consequently, the most important and material items in a central bank's financial instruments are its financial assets and financial liabilities—those created by the central bank (its currency); those managed by the central bank (foreign reserves); those used in pursuit of policy objectives (domestic assets and liabilities); and lastly, those created as banker to the sovereign. Other aspects that may be more significant in other entities, such as property, plant and equipment, are of less significance to the functions of a central bank, even if the numbers might be relatively large.

Each central bank needs to individually consider materiality in its context, in its jurisdiction, and in assessing the needs of the users of the statements. For example, IFRS disclosures include extensive requirements regarding property, plant and equipment; intangibles; pensions and other post-retirement benefits, and so on—when such are material. While many of these items are important in a typical for-profit or non-profit business, they are typically of limited relevance to a central bank's operations. They can be, however, of interest to those concerned with the operating efficiency of the bank and thus, even if less relevant to policy operations, they may be relevant to the stewardship of public resources. Each central bank must balance the extent of the different disclosures to ensure transparency while not clouding items of key importance.

Materiality can often be guided by the number of digits represented in the numeric statements. When the numeric representation on a balance sheet exceeds seven digits (i.e., millions), the central bank should challenge itself by asking whether the level of precision is helping or hindering the reader in truly understanding the central bank's financial position. A well-constructed and concise balance sheet and income statement will more often portray sound governance of the central bank and increase the reader's awareness of what is important to central bank operations and the risks it faces.

The model statements attempt to reflect truly material items, while still meeting the requirements of IFRS. This has been achieved, in part, by the careful ordering of



items into different sections so that disclosures relating to internal operations are grouped into a separate chapter. Commentary and assessment regarding the central bank's operational performance may be more appropriately discussed in the "front half" of the annual report. For example, a directors' report, management commentary, or similar section should address the central bank's stewardship of the resources entrusted to it in its pursuit of its mandate and policy objectives. In practice, this is where many central banks discuss these items. As such, these model statements do not address these disclosures. More developed central banks will have a Disclosure Committee charged with ensuring that all disclosure requirements are being met by the central bank.

## How to Use This Guide

Many of the disclosures included in the model statements contain text and disclosures drawn from multiple central banks. In some cases, the wording is exactly as it is presented in the reference central bank and in other cases, the thrust is maintained, but the wording has been modified to ensure a consistent flow throughout the document. Where appropriate, the notes include references to central bank disclosures that were used as a basis to develop the model financial statement disclosures. In all cases, the references refer to the central bank's published English language versions of financial statements. In some cases, a single phrase may have been adopted, while in others, several paragraphs may have been selected. In addition, some are based on the exact wording of the respective disclosures, while in other cases, the wording has been modified from the original and tailored to Bank of Utopia circumstances (e.g. change of values, dates, names of institutions, rewordings, etc.). If the reader is considering adopting the language provided herein, the reader is urged to review how the respective central bank addressed the disclosure in their context.

Please note that the values, dates, names of institutions, systems, and so on included throughout the model statements are meant to be indicative. The figures shown are fictitious and, in some cases, may not fully reconcile.

The aim of the model statements is to create a reference set of IFRS financial statements that any central bank can use to assist in their disclosures. This can be followed by central banks already following IFRS, who

may wish to improve some of their disclosures, and by central banks who are about to adopt IFRS. For the latter, Appendix I has been included to provide guidance on the first-time adoption of IFRS and the transitional requirements.

The layout of the model statements follows an example pioneered by Norges Bank and the Bank of England. Firstly, the disclosures are presented in separate chapters, bringing highly interrelated notes together. Secondly, specific accounting policies, judgements, and estimates are grouped together with the detailed line item note disclosures to enhance the readability of the financial statements. Foundational accounting policies and other boiler plate disclosures not specific to any one financial statement line item are grouped together under a separate chapter.

This presentation differs from that adopted by most central banks, where accounting policies are typically grouped into a single note, often presented early in the disclosures. This means that a reader must read through several pages of required boilerplate disclosures before reaching the detailed breakdown of the numbers in the primary financial statements.

This layout was adopted to make the model statements more readable for the user by bringing the specific accounting policy and statements on significant judgment and estimates close to the model note. This style of presentation was considered by the project Working Group to be a significant improvement in the presentation of the financial statements, and so increases the transparency of reporting. It also is in line with the IASB Case studies "Better Communication in Financial Reporting: Making disclosures more meaningful".

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# MODEL FINANCIAL STATEMENTS

## Overview

The model statements have been compiled based on research of financial reports prepared by IFRS compliant central banks from around the world. They are intended to assist central banks in preparing their own financial statements and in discussions with their auditors. They are not intended to be comprehensive as each central bank will have its own unique circumstances that need to be considered. They are not intended to override any legal, regulatory or other requirements. The model statements were developed only as an indicative sample; they will need to be adapted to suit the specific situation of each central bank.

The statements include references to governance structures, including directors and internal committees. These are included for illustrative purposes and are not intended to be definitive or recommendations as to the appropriate structures.

The financial statements have been prepared with the intention of being representative of the various activities, assets, liabilities, income and expenditure of central banks. It is unlikely that any central bank will have all the items included and may have other material items and activities that are not presented here.

As noted earlier, the number of digits presented in the main financial statements should be guided by materiality. The presentation should enhance the readers ability to understand the key functions of the central bank and its financial ability to fulfill its mandate. The financial statements included herein are presented in thousands of Utopian local currency to depict a broad range of conditions that a typical central bank may encounter. In practice, given the size of Utopia's balance sheet, it would have been recommended that these statements be presented in millions of Utopian local currency. Smaller central banks would choose to present the statements in thousands of local currency. The note disclosures would continue to include greater precision.

## Statement of Financial Position *As at December 31 (in thousands of Utopian local currency)*

	Note	2019	2018
<b>ASSETS</b>			
<b>Foreign currency financial assets</b>			
Cash and cash equivalents	3.1	19,671,825	19,067,867
Deposits with banks	3.2	49,738,005	42,154,364
Securities	3.2	9,605,555	12,855,888
Monetary gold	6	108,000	94,000
IMF related assets	5	2,537,070	2,337,041
Derivatives	3.2	120,000	84,000
Equity investments	7.a	8,100	8,000
Other receivables	11	100,273	270,044
<b>Total foreign currency financial assets</b>		<b>81,888,828</b>	<b>76,871,204</b>
<b>Local currency financial assets</b>			
Cash and cash equivalents	3.1	657,756	518,053
Loans due from financial institutions	3.3 (a,b)	500,000	550,000
Securities	3.4 (a)	349,000	450,000
Loans to staff	11	31,882	36,188
Advance to government	3.4 (b)	1,234,500	1,100,000
Other receivables	11	59,521	44,125
<b>Total local currency financial assets</b>		<b>2,832,659</b>	<b>2,698,366</b>
<b>Non-financial assets</b>			
Non-monetary gold	11	16,672	4,437
Inventories	8	41,319	92,116
Property, plant and equipment	9	134,565	90,032
Intangible assets	9	15,000	12,000
Investment properties	9	14,000	15,000
Other assets	11	155,604	126,142
<b>Total non-financial assets</b>		<b>377,160</b>	<b>339,727</b>
<b>TOTAL ASSETS</b>		<b>85,098,647</b>	<b>79,909,298</b>
<b>LIABILITIES</b>			
<b>Foreign currency financial liabilities</b>			
Balances of commercial banks	3.3 (f)	23,000	19,000
Balances of government	3.4 (c)	7,206,767	7,164,579
IMF related liabilities	5	2,096,913	1,933,723
Derivatives	3.2	8,100	8,000
Due to financial institutions	7.b	7,662	25,944
Due to foreign central banks	3.5	10,845,460	3,872,190
Other liabilities	11	71,086	30,655
<b>Total foreign currency financial liabilities</b>		<b>20,258,988</b>	<b>13,054,092</b>
<b>Local currency financial liabilities</b>			
Currency in circulation	10	14,467,118	13,928,764
Balances of commercial banks	3.3 (f)	23,666,760	27,950,888
Balances of government	3.4 (c)	348,351	1,835,649
Certificates of deposits from Bank of Utopia	3.3 (e)	5,000,944	3,507,159
Due to financial institutions	3.3 (c)	557	557
Other liabilities	11, 15.2	270,700	1,618,982
<b>Total local currency financial liabilities</b>		<b>43,754,431</b>	<b>48,841,999</b>
<b>TOTAL LIABILITIES</b>		<b>64,013,419</b>	<b>61,896,091</b>
<b>Equity</b>			
Capital and general reserves	12.1; 20	4,385,242	3,898,932
Revaluation reserves	12.2	16,699,986	14,114,275
<b>Total equity</b>		<b>21,085,228</b>	<b>18,013,207</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>85,098,647</b>	<b>79,909,298</b>

## ■ *User Guidance - Statement of Financial Position*

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The purpose of the Statement of Financial Position (commonly known as the balance sheet) is to disclose the economic position of an entity at a particular date, showing the assets, liabilities, and net equity.

Most central banks adopt the format allowed under International Accounting Standard 1 (IAS 1), under which assets and liabilities are presented in order of liquidity. Furthermore, many further subdivide (segregate) the balance sheet between foreign currency denominated and domestic currency denominated assets. This subdivision may also be applied to liabilities if there are sufficient foreign currency liabilities to make it worthwhile. Most central banks hold a large portfolio of foreign currency assets, being the foreign reserves of the jurisdiction. Significant foreign currency liabilities are less common, in part, because foreign currency borrowing is more commonly made by the government itself, rather than the central bank.

This segregation into foreign currency and domestic currency on the face of the balance sheet rather than in the notes enables the reader to obtain a clearer view of the net foreign currency exposure of the central bank, which is one of the most significant items in the central bank's financial position. It also reflects the fact that most central banks have effectively two separate activities, (i) holding and investing the foreign currency reserves of the nation, and (ii) undertaking monetary policy and other official operations in domestic currency. The balance between these two activities varies between central banks. There may also be some overlap, as some central banks undertake some monetary policy-related operations in foreign currencies. It is also common to present the foreign currency items before the domestic ones.

This subdivision of the balance sheet is not specifically authorized by IAS 1 (but not explicitly prohibited) and some auditors new to central banks do not like it. However, it has become a widely accepted practice.

# Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31 (in thousands of Utopian local currency)

	Note	2019	2018
<b>Foreign currency interest income and expenses</b>	<b>13</b>		
Interest income on foreign currency financial assets		2,286,951	2,138,512
Interest expense on foreign currency financial liabilities		(519,706)	(539,127)
<b>Net foreign currency income</b>		<b>1,767,245</b>	<b>1,599,385</b>
<b>Local currency interest income and expenses</b>	<b>13</b>		
Interest income on local currency financial assets		12,552	7,224
Interest expense on local currency financial liabilities		(250,000)	(260,000)
<b>Net local currency income</b>		<b>(237,448)</b>	<b>(252,776)</b>
<b>Net interest income</b>		<b>1,529,797</b>	<b>1,346,609</b>
<b>Other income</b>			
Gain or loss on sale of foreign currencies		53,494	71,453
Gain or loss on sale of securities		(5,323)	(5,244)
Gain or loss on fair value revaluation of financial assets at FVPL		987	(822)
Fee and commission income	<b>14</b>	8,840	5,540
Foreign exchange revaluation		2,905,581	(2,735,115)
Other income		22,016	9,200
Less: Fee and commission expense		(16,752)	(10,928)
<b>Net other income</b>		<b>2,968,842</b>	<b>(2,665,917)</b>
Net impairment on financial instruments	<b>4.3 (b)</b>	335	212
<b>Total net operating income</b>		<b>4,498,974</b>	<b>(1,319,096)</b>
<b>Expenses</b>			
Currency production cost	<b>16</b>	(75,987)	(83,325)
Personnel expenses	<b>15</b>	(178,044)	(156,662)
Administrative expenses	<b>17</b>	(78,347)	(77,923)
<b>Total operating expenses</b>		<b>(332,377)</b>	<b>(317,909)</b>
<b>NET PROFIT FOR YEAR</b>		<b>4,166,597</b>	<b>(1,637,005)</b>
<b>Other comprehensive income</b>			
<b>Items that are or may be subsequently reclassified to profit or loss</b>			
Monetary gold revaluation		2,000	(500)
Revaluation of securities at FVOCI		453	730
ECL recognition effect of FVOCI financial instruments	<b>4.3 (b)</b>	804	170
<b>Other comprehensive income</b>			
<b>Items that will never be reclassified to profit or loss</b>			
Actuarial gain on staff gratuity fund	<b>15.2</b>	600	300
Revaluation of equity instruments at FVOCI	<b>12</b>	500	100
Revaluation reserve on PPE and intangible assets		–	–
<b>Total other comprehensive income</b>		<b>4,357</b>	<b>800</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>4,170,954</b>	<b>(1,636,205)</b>
<b>Profit for distribution</b>			
Net profit/(loss) as above		4,166,596	(1,637,005)
Transferred to revaluation reserve		(2,906,568)	2,735,937
Previous unrealised gains/losses recognised in year		325,214	–
<b>Net profit (loss) or the year</b>	<b>20</b>	<b>1,585,242</b>	<b>1,098,932</b>

## ■ User Guidance: Statement of Other Comprehensive Income

The purpose of the Statement of Other Comprehensive Income (OCI) is to disclose the economic results of an entity, increasing the level of disclosure of the results beyond the concept of accounting profit or loss, which is usually disclosed through the Income Statement (Central Bank of Brazil [BCB]) [IAS 1.7].

The purpose of the Statement of Profit or Loss, otherwise known as the Income Statement, is to disclose the financial performance of central banks in the form of items generating an increase or decrease in net assets—other than from the injection of capital. It may be presented combined with other comprehensive income as a single statement or as two separate statements.

Although a central bank does not have financial performance as a key objective, it still needs to present this information as part of its accountability to stakeholders for the resources with which it has been entrusted. In particular, the income statement forms the basis for distribution of profits to the Ministry of Finance.

For central banks that hold the country's foreign exchange reserves, the effects of exchange rate revaluations are a major component of the income statement. Under IFRS, the majority of exchange rate revaluations must pass through the income statement. This is a major issue for central banks, since such effects are not necessarily part of the performance of the central bank, but a consequence of the basic responsibilities of the central bank. Furthermore, many of these gains and losses will be unrealized, so they should not be distributed. But the inclusion of these items in the income statement means that they will need to be taken into account in the distribution arrangements, unless local law or other arrangements exist to prevent this.

### With regard to the income statement:

IAS 1 allows commercial banks to present the income statement in a form that differs from most entities. The income statement starts with interest income and expenses, rather than sales and cost of sales. Then fees, commissions, and other trading income. After arriving at net revenue, expenses, such as personnel, administrative, and amortization are deducted.

Most central banks adopt this format but differ in the extent of the detail displayed on the face of the income

statement as against in the notes. One major aspect is whether to show income from foreign assets and from domestic assets separately on the face of the income statement, thus matching the presentation adopted for the balance sheet and as adopted in this model. This is a matter of choice for the central bank and many show the split in the notes, but as a general rule, having fewer items on the actual income statement makes it easier for a reader. The split of income and expense by currency is generally less significant for the reader than is the case for the position as shown in the statement of financial position.

Amongst expenses, many central banks show the costs of currency (banknote) operations as a separate line item in addition to the normal personnel, administrative, and amortization costs. This practice has arisen because: (a) it is a rather specific activity largely unique to central banks and (b) it can vary significantly from year to year due to the logistics of note operations—for example, the need to print a lot of notes one year prior to a new issue. Showing such currency issue costs separately allows the reader to understand the impact.

### With regard to the OCI statement:

There are two options for presenting other comprehensive income items [IAS 1.81 A]:

- as one of the sections of the single Statement of Comprehensive income
- as the separate Statement of Comprehensive income

In the Statement (or Section) of Other Comprehensive Income, a central bank shall present all items of OCI for respective assets/liabilities in two groups\* [IAS 1.82 A]:

- those that will not be reclassified to profit or loss
- those that will be reclassified to profit or loss

If a central bank is required to pay income tax, it also shall disclose the amount of income tax relating to each item of other comprehensive income—including reclassification adjustments—either in the statement of profit or loss and other comprehensive income or in the notes [IAS 1.90].

\*Examples for each category are included in the Statement of Profit or Loss and OCI on page 8.



## Statement of Changes in Equity

For the year ended December 31 (in thousands of Utopian local currency)

2018	Capital	General reserve	Revaluation reserve	Retained earnings	OCI reserve	Gold revaluation	Total
Balance as at Jan 1, 2018	800,000	2,000,000	16,286,969	880,843	553,943	8,500	20,530,255
Distribution of profit to government	–	–	–	(880,843)	–	–	(880,843)
Total comprehensive income	–	–	(2,735,937)	1,098,932	1,300	(500.00)	(1,636,205)
Balance as at December 31, 2018	800,000	2,000,000	13,551,032	1,098,932	555,243	8,000	18,013,207

2019	Capital	General reserve	Revaluation reserve	Retained earnings	OCI reserve	Gold revaluation	Total
Balance as at Jan 1, 2019	800,000	2,000,000	13,551,032	1,098,932	555,243	8,000	18,013,207
Distribution of profit to government	–	–	–	(1,098,932)	–	–	(1,098,932)
Total comprehensive income	–	–	2,906,567	1,260,029	2,357	2,000	4,170,953
Realisation of previously unrealised gains	–	–	(325,214)	325,214	–	–	–
Balance as at December 31, 2019	800,000	2,000,000	16,132,386	1,585,242	557,600	10,000	21,085,228

### ■ User Guidance: Statement of Changes in Equity

The statutory capital of central banks is defined in the respective laws and such legal frameworks should be mentioned in the financial statements. Along with that, central banks should refer to the profit distribution policy as described in the law as well as the types of reserves which can be created either by legal requirement or on the discretion of the central bank's Council.

Typically, the equity accounts of a central bank include:

- 1) Authorized and paid-in capital—stipulated in the law and which includes foundation (paid-up, share) capital.
- 2) General reserves—which are created according to the local law as a buffer against future losses. The source for these is realized distributable profit. Some central banks calculate it as a percentage of reserve money (also referred to as monetary liabilities) and some as a factor of authorized capital. It is established by allocations from the realized profit for the year.
- 3) Other specialized reserves—which are supplementary realized reserves, in addition to a general reserve (for example, capital injection of grant related monies, amounts retained in offset of negative [debit balances] of revaluation reserves, and so on).
- 4) Foreign currency revaluation reserves—the central bank transfers here the net unrealized gains or losses from foreign currency revaluation.

- 5) Other Fair Value (FV) revaluation reserves—which include net unrealized gains or losses arising from changes of the Fair Value through Profit or Loss (FVPL) financial instrument market prices (if permitted by legislation).
- 6) Revaluation reserves—which represent accumulated revaluations attributable to revaluation of assets/liabilities that IFRS require to be recognized in OCI.
- 7) Other Comprehensive Income reserves—which include items required by IFRS to be included in OCI. This may include financial instruments at Fair Value through Other Comprehensive Income (FVOCI), and actuarial gains and losses on post-retirement benefits.

There is a requirement of IFRS [IAS 1.134] to disclose information on the objectives, policies, and processes for managing capital. Although a central bank's policy regarding capital management is not the same as commercial entities, they still should provide some information to be compliant with the standard. Typically, they provide a description of the capital position and profit distribution policy. This approach has been accepted also by auditors, given the central banks' specific operations.

IFRS does not contain any detailed requirements for classification or disaggregation of equity into line items. IAS 1 only contains a statement that an entity shall present separately each material class of similar items [IAS 1.29]. An entity shall disclose, either in the statement of financial position or in the notes, further sub classifications of the line items presented, classified in a manner appropriate to the entity's operations [IAS 1.77]. The detail provided in sub-classifications depends on the requirements of IFRS and on the size, nature, and function of the amounts involved. An example of such a subclassification is equity. Capital and reserves are disaggregated into various classes, such as paid-in capital, share premium, and reserves. [IAS 1.78 (e)].

Regarding statutory capital, different central banks use different terms—particularly authorized and paid-up share capital (Bank of Tunisia [BOT]), share capital (BCB; Central Bank of Bosnia and Herzegovina [CBBH]), initial capital (South African Reserve Bank [SARB]); capital (Bank of England [BOE]), statutory capital (National Bank of Ukraine [NBU]), and foundation capital. Sometimes all of them are the same substance, sometimes not.

For the purpose of simplification and increasing understandability, similar types of equity can be grouped. These groups are presented as columns in the Statement of Changes in Equity (SOCE) and in the Statement of Financial Position.

As an International Monetary Fund (IMF)-preferred disclosure, for the purposes of this document, such items are grouped and presented as follows:

#### 1) Statutory capital

- i) authorized and paid-in capital—which presents owners' contributions.
- ii) general reserves—created through realized profit distribution procedure based on the respective legal framework. While general reserve is the more common terminology for central banks, it may also be referred to as retained earnings.
- iii) special reserve—represents supplementary realized reserves, in addition to general reserve, created in specific cases, such as injection of grants related monies and so on.

#### 2) Revaluation reserves:

- i) revaluation reserves required by accounting policy or legal framework—are “deferred” unrealized revaluation reserves such as foreign exchange rate revaluations or financial instruments designated at FVPL, which are recognized in profit or loss due to IFRS, but are forbidden for distribution according to the central bank's legal framework (unless realized);
- ii) revaluation reserves required by IFRS – accumulated capital which includes revaluation reserves representing accumulated OCI that IFRS forbids to recognize as profit or loss, such as equity instruments designated at FVOCI, property, plant and equipment and intangible assets revaluations etc.

More detailed subclassifications for each group of equity are presented in the respective notes. It may be one single note or separate notes for each group of equity (it considered as more appropriate).

The SOCE will need to reflect the differing legal provisions between jurisdictions on capital and profit distribution. One example is the allocation of comprehensive income. Some will initially show the comprehensive income initially allocated to one category and then reallocated out amongst the various reserves. Others may show the allocation of the comprehensive income directly to the various reserves, as in the example.

# Statement of Cash Flows

For the year ended December 31 (in thousands of Utopian local currency)

	2019	2018
<b>Cash flows from operating activities</b>		
Interest received	2,453,878	2,167,559
Interest paid	(769,706)	(799,127)
Fees and commissions received	8,840	5,540
Fees and commissions paid	(16,752)	(10,928)
Net gain/(loss) on sale of securities	(5,323)	(5,244)
Net realized gain from dealing in foreign currency	53,494	71,453
Other income received	22,016	9,200
Personnel expenses paid	(178,044)	(156,662)
Currency production cost	(75,987)	(83,325)
Administrative expenses paid	(58,249)	(64,799)
<b>Net cash flow from operating activities before changes in operating assets and liabilities</b>	<b>1,434,168</b>	<b>1,133,667</b>
<i>Net (increase)/decrease in operating assets</i>		
Due from resident financial institutions	50,000	(550,000)
Deposits with banks	(5,983,306)	804,589
Advances to government	(134,500)	254,000
Increase in balance with IMF	(200,029)	150,141
Net increase in derivatives	(35,900)	-
Non monetary gold	(12,236)	9,296
Loans to staff	4,306	(3,016)
Inventories	50,797	26,433
Other assets	(29,461)	(7,868)
<i>Net increase/(decrease) in operating liabilities</i>		
Balances of commercial banks	(4,280,128)	1,212,703
Due to government in foreign currency	247,187	4,740,020
Due to the government in domestic currency	(1,487,298)	466,342
Due to financial institutions	(18,282)	(380)
Central bank bills	1,493,786	(270,000)
Other liabilities	(1,307,851)	(55,627)
<b>Total</b>	<b>(11,642,914)</b>	<b>6,776,633</b>
<b>Net cash flow from operating activities</b>	<b>(10,208,747)</b>	<b>7,910,300</b>
<b>Cash flows from investing activities</b>		
Net purchase of property, investment property and intangibles	(66,632)	(36,085)
Net sale/(purchase) of securities	3,603,590	(12,855,888)
Net purchase of monetary gold	(12,000)	
Net purchase of equity investment		
<b>Net cash flow from investing activities</b>	<b>3,524,958</b>	<b>(12,891,973)</b>
<b>Cash flows from financing activities</b>		
Currency in circulation	538,354	4,257,842
Increase In IMF liability	163,190	(124,939)
Due to foreign central banks	6,973,270	(6,934,588)
Distribution	(1,098,932)	(886,586)
<b>Net cash flow from financing activities</b>	<b>6,575,882</b>	<b>(3,688,271)</b>
Net cash flow	(107,906)	(8,669,944)
ECL effect of cash and cash equivalents		
Effect of exchange rate fluctuation on cash and cash equivalents	851,568	(1,219,854)
<b>Net increase/decrease in cash equivalents</b>	<b>743,662</b>	<b>(9,889,798)</b>
<b>Cash equivalents at beginning of year</b>	<b>19,585,920</b>	<b>29,475,718</b>
<b>Cash equivalents at end of year</b>	<b>20,329,581</b>	<b>19,585,920</b>

## ■ User Guidance: Statement of Cash Flows

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The purpose of the Statement of Cash Flows is to disclose the cash flows generated and used by the entity. The nature of central banks' activities involves making cash flows on behalf of their customers and undertaking regular policy operations whose size is determined by the needs of the financial markets, rather than those of the central bank.

The cash flows made by the central bank for its own purposes, such as expenditures, are normally much smaller than the official policy ones. In addition, the central bank can literally create money in its own currency. As a consequence of these factors, the cash flow statement for a central bank is not usually regarded as being of great significance. Nevertheless, central banks which are compliant with IFRS framework are required to prepare and present the cash flow statement based on IAS 1 and IAS 7 requirements.

In addition, the definition of cash and cash equivalents does not always coincide with the way in which central banks manage their portfolios, particularly monetary policy instruments.

Some central banks do find the cash flow statement to be of assistance in explaining how the profit or loss for the year reconciles with the movement in net assets.

According to IAS 7.10 "the statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities".

IAS 7.18 provides two methods for the cash flow from operating activities reporting:

- The direct method — whereby major classes of gross cash receipts and gross cash payments are disclosed;
- The indirect method — whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The standard encourages entities to report under the direct method because it provides information which may be useful in estimating future cash flows and which is not available under the indirect method [IAS 7.19]. However, a large number of central banks report the cash flows from operating activities based on the indirect method. Of the sample of central bank financial statements used in compiling this note, 10 out of 19 central banks report under the direct method and nine under the indirect method. Some of these expand parts of the statement, such as the operating profit. Every central bank can choose the method which best presents the effects of the transactions it performs in the cash flows of the institution.

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# MODEL NOTE DISCLOSURES

## Overview

The layout of the note disclosures provided herein differs from the typical presentation. Different options are available—the importance is to adopt a format that helps the reader understand the financial position, financial risks and role of the central bank. The presentation adopted for the model statements is intended to provide the disclosures in sequence of relevance and importance to the reader. For this reason, more generic standardized notes are included towards the end. As well, while pervasive accounting policies are provided in a single note, specific accounting policies are aligned with the relevant note disclosures. At the time of drafting, this represented a format adopted by the Norges Bank and Bank of England. Each central bank will have to assess what order is most appropriate for their circumstances. Of more critical importance is that the notes provide the reader with a materially comprehensive understanding of the central bank's finances and the risks it is exposed to.

## NOTE 1

# Reporting entity and statutory base

### ■ Business Context

There are different practices that central banks follow with regard to this note. For the purposes of this document, we suggest presenting central bank's

functions in paragraphs by explaining what they consist of. [IAS 1.51 (a); IAS 1.138 (a) and (b)]

### DISCLOSURE – REPORTING ENTITY AND STATUTORY BASE

The Bank of Utopia (the "Bank") is the central bank of Utopia and the banker and fiscal agent of the Government of Utopia. It acts in accordance with the Bank of Utopia Act enacted effective from January 01, 1926. (NBG)

In accordance with the abovementioned act, the primary objective of the Bank of Utopia is to promote price stability in support of the long-term economic wellbeing of the citizens of Utopia.

To fulfil its primary objectives the Bank carries out the following activities:

- **Monetary Policy:** The Bank conducts monetary policy to preserve the value of money by keeping inflation low, stable and predictable. (BOC)
- **Financial Stability and Supervision:** The Bank promotes safe, sound and efficient financial systems, within Utopia and internationally, and conducts transactions in financial markets in support of these objectives. (BOC) The Bank is also responsible for the supervision and regulation of separate participants on the financial market (banks, financial institutions, intermediaries, etc.). (NBG)
- **Foreign Reserves Management:** The Bank maintains a portfolio of foreign currency reserves for policy and operational purposes, for instance to protect the country from external vulnerability by maintaining sufficient liquidity to absorb shocks during a financial crisis and to support day-to-day foreign currency payment requirements of the Government of Utopia and those of the Bank. (NBG)
- **Funds Management:** The Bank provides funds-management services to the Government of Utopia, the Bank itself and other clients. The Bank is the fiscal agent for the government, providing treasury management services and administering and advising on the public debt. (BOC)
- **Currency Issuance:** The Bank designs, issues and distributes Utopia's banknotes, oversees the note distribution system and ensures a supply of quality banknotes that are readily accepted and secure against counterfeiting. (BOC)
- **Payment System:** The Bank operates the largest payment systems in the country – the Real Time Gross Settlement (RTGS) which processes and settles interbank and Government payments in local currency and the Automated Clearing House (ACH) which clears low value payments in national currency. (NBG)

The Bank's main office is located at 123 Financial Street, Center of the Universe, Utopia. As at December 31, 2019 and 2018, the Bank has one cash service center. (NBG)

### ■ User Guidance

For those central banks with many responsibilities, often as stated in their respective laws, it may warrant describing these under higher level accountabilities. For example, most central bank mandates cover one or more

of the areas indicated in the note above. While it is not recommended to simply restate the central bank's law, care is needed to ensure that there is no reinterpretation of the actual law.



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## NOTE 2

# Significant accounting policies

### ■ *Business Context*

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This note describes the accounting policies, significant estimates and accounting judgements that are relevant to the financial statements as a whole. Additional accounting policies, significant estimates or accounting judgements are included in the respective statements and notes. This is a model used by Norges Bank and Bank of England.

Based on IFRS requirements, the central bank should provide information on the estimates and judgements its management has made during the application of its accounting policies, which have a significant financial effect [IAS 1.122]. The same requirement applies even when the management makes use of the various estimates and assumptions about the future, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. On the latter, the central bank should additionally provide information on their carrying amount at the end of the reporting period. [IAS 1.125] For this purpose, central banks refer in the financial statements to the respective notes which have been subject of judgements and estimates.

According to IAS 8.28, if a new or revised accounting standard is introduced and it is expected to have an effect in the current period but also in the future ones, the central bank should disclose the respective explanations in the note. This also includes information if the new accounting policy will have a retrospective effect. The same logic applies if the central bank applies voluntarily the change in the accounting policy [IAS 8.29]. According to the standard [IAS 8.30], central banks should explain if there is any standard not yet applied and also if it is expected to have a material effect in the current period and in the future.

## Note 2.1 Statement of compliance

### ■ Business Context

First and foremost, in this note central banks should state their compliance with the IFRS framework and no exceptions are allowed [IAS 1.16].

This statement may be combined with the statement on the basis of preparation. As provided in the note 2.2, the

preparer should also inform the users of the financial statements about the measurement basis used. [IAS 1.117 (a)] This is because such information significantly affects users' analysis [IAS 1.118].

### DISCLOSURE - STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). (NBG; BOC; BOA)

### ■ User Guidance

Strictly speaking, 'IFRS except' is not permitted. However, in practice, it has been accepted by some auditors for specific items which do not materially affect the financial statements or when there is a specific situation required by law (e.g unrealized profit or loss not being considered for profit distribution purposes). Nevertheless, reference to any other laws or regulations governing the preparation of the financial statements need to be worded or explained carefully to avoid any conflict with IFRS.

If central banks have subsidiaries or control in other entities as qualified under IFRS 10 for consolidation, the central bank should publish the consolidated financial statements and provide the respective information on these entities. The model statements are prepared on a basis excluding any associates and subsidiaries. Please also see Appendix V for additional information on disclosures for associates and subsidiaries.

[IAS 1.16; IAS 1.51 (b)]

## Note 2.2 Basis of preparation

### ■ Business Context

The requirement for a central bank to prepare financial statements is normally contained in the primary legislation as are any requirements on the basis for preparing these. It is quite common for the primary legislation to contain limited requirements, such as following a recognized international framework, leaving these to the central bank itself, through the Council or other governance body. The most common such framework is IFRS. There is also International Public Sector Accounting Standards (IPSAS), the framework for the public sector, which is largely derived on IFRS, as well as the framework used by the European System of Central Banks (ESCB), which was developed separately for the ESCB.

The framework used is significant for readers, particularly international ones, who may not be familiar with the accounting rules in that jurisdiction.

The framework chosen also gives the external auditors a reference for their work. Using a recognized framework reduces the extent to which a central bank can pick and choose policies, perhaps under political pressure.

For these reasons, many central banks adopt IFRS with perhaps some additions for items not covered by IFRS. As IFRS is an all or nothing framework, and does not permit exceptions, any such additions need to be considered carefully to be in accordance with the principles of IFRS.

Central banks need to explain the basis of preparation. Where IFRS is adopted, it is necessary to state this, and follow the disclosure requirements. Due to the widespread adoption of IFRS, there are many examples of disclosure that can be used as models.

### DISCLOSURE - BASIS OF PREPARATION

The financial statements are prepared on the historical cost basis, except for the following:

- Financial instruments at fair value through other comprehensive income (FVOCI) measured at fair value;
- Financial instruments at fair value through profit or loss (FVPL) measured at fair value; and
- Monetary gold measured at fair value (BOJ, BOA)

The preparation of the financial statements requires the use of certain key accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies of the Bank. The areas with a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed with the respective note. (SARB)

These financial statements have been translated from the Utopian language original, which is the official and binding version. Such translation has been made solely for the convenience of non-Utopian language readers. (BCC)

## ■ User Guidance

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When the central bank uses more than one measurement basis in the financial statements, for example when particular classes of assets are measured at fair value rather than on the historical cost, the central bank should provide an indication of the categories of assets and liabilities to which each measurement basis is applied. [IAS 1. 118, IAS 1.117 (a)]

If a central bank elects to measure assets and liabilities at fair value and to use that fair value as the deemed cost in its opening IFRS statement of financial position because of severe hyperinflation, the central bank's first IFRS financial statements shall disclose an explanation of how, and why, it had, and then ceased to have, the currency of a hyperinflationary economy [IFRS 1. D 26].

The translation statement may also be required to make clear that the proper legal documents are the financial statements in the native language.

The user of the model statements may need to include the following statements if applicable in their case:

- IMF Quota subscription designated as measured at fair value;
- Certain classes of property, plant and equipment are measured at fair value;
- The defined benefit asset is measured at the net of the fair value of the plan assets and the present value of the defined benefit obligation plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.

## Note 2.3 Functional and presentation currency

### DISCLOSURE - FUNCTIONAL AND PRESENTATION CURRENCY

The Bank's functional and presentation currency is the Utopian Local Currency (LC). The amounts in the notes to the financial statements of the Bank are in thousands of LC, unless otherwise stated. (BOC)

Exchange rates to LC at December 31, 2019 and the prior year were:

	2019	2018
LC/1 US Dollar (USD)	2.6766	2.5922
LC/1 Euro (EUR)	3.0701	3.1044
LC/1 Great Britain Pound (GBP)	1.8894	2.0266
LC/1 RUD (Ruritania Dollar)	1.9674	2.0683
LC/1 Special Drawing Right (SDR)	3.7226	3.6916

### ■ User Guidance

The central bank should state the functional and presentation currency (as defined in IAS 21) as well as the level of rounding used in presenting amounts in the financial statements. [IAS 1.51 (d); (e); & IAS 1.53] It is recommended that the statements be rounded such that the majority of material items included in the balance sheet do not exceed six digits and avoid the use of decimals. This allows the reader to more readily ascertain those items of most importance. The units used, for example LC, should be repeated on each page of the financial statements.

In the majority of instances, the functional and presentational currency is the local currency. This may not be the case for heavily dollarized economies.

According to the standard, if the presentation currency differs from the central bank's functional currency, it translates its results and financial position into the presentation currency. [IAS 21.38]

If the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with IAS 29 Financial Reporting in Hyperinflationary Economies [IAS 21.14].

## Note 2.4 Significant estimates and accounting judgements

### DISCLOSURE – SIGNIFICANT ESTIMATES AND ACCOUNTING JUDGEMENTS

The preparation of the financial statements involves the use of uncertain estimates and assumptions regarding future events that affect recognized amounts for assets, liabilities, income and expenses. Estimates are prepared on the basis of historical experience and reflect management's expectations about future events. The actual outcome may deviate from the estimates. The preparation of the financial statements also involves making accounting judgements in connection with the application of accounting policies, which can have a considerable effect on the financial statements. (NB)

#### ■ User Guidance

Several central banks provide an introductory note with general information with the respective details about judgements or estimates in the related notes. The more common practice is to provide detailed information about all the judgements and estimates made in this note and put at the end the reference to the related notes. Although both options are acceptable, for the purposes of these model statements, the first has been adopted as a recommended option. Under this approach, it is easier for the reader of the financial statements to have all the necessary information in the respective note and avoid too many linkages/references within the document.

With regard to judgements, the most common ones for central banks are those on financial instruments measurement. Especially with the introduction of IFRS 9 which requires a lot of judgement related to the classification of the financial assets, business model assessments, ECL calculation methodology, and the criteria to determine if credit risk has increased significantly.

Central banks also use judgments with regard to related party transactions. In these cases, judgment is applied in determining whether transactions are priced at market or non-market interest rates, where there is no active market for such transactions (NBU).

With regard to estimates, notes may vary by central bank, but typically include:

- fair value of financial instruments – when there is no active market for a certain financial instrument, central banks use valuation techniques which employ only observable market data, and so reliability of the fair value measurement is high. If observable data are missing, then the central bank must apply judgement to determine a fair value.
- post-retirement benefits – these are long term liabilities whose value is typically estimated using actuarial valuation techniques with assumptions about developments over a long period of time.

Note that the disclosures required for estimates differ from those for judgments. In particular, estimates require disclosure of sensitivity analysis on the main assumptions.

[IAS 1.122; IAS 1.125]



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## Note 2.5 Significant accounting policies

### ■ Business Context

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The standard requires that the central bank should disclose all the accounting policies which are relevant to an understanding of the financial statements. The most relevant accounting policies of the central bank, which help understanding of how transactions, other events and conditions are reflected in reported financial performance and financial position of the central bank, include financial instruments, interest income and expense, realized and unrealized gains and losses, but also non-financial assets or typical operations for central banks such as currency issuance. Disclosure of accounting policies is particularly important when the central bank applies alternatives allowed by the IFRS e.g. when it applies the historical cost model instead of fair value in the case of Property, Plant and Equipment. [IAS 1. 117 (b) & IAS 1. 119]

In terms of materiality, although the standard does not provide any specific threshold or criteria, it states that an accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. [IAS 1. 121]. In this context, central banks do have some assets and liabilities which are largely unique to them and for which they have devised their own policies.

These include, but are not limited to, monetary gold, banknotes issued and held in inventory as examples. These should be disclosed with some explanation where necessary that the central bank has used the requirements of IAS 8.

The majority of the significant accounting policies for a central bank will be similar to those of other central banks, namely those relating to financial instruments, including interest income and expense. The central bank might use this to explain the particular choices it has made with regard to classification of its financial assets.

## DISCLOSURE – SIGNIFICANT ACCOUNTING POLICIES

This section contains the Bank's accounting policies that relate to the financial statements as a whole.

When an accounting policy is applicable to a specific note to the financial statements, the policy and related disclosures are provided within that note as identified in the table below. (BOC)

Note	Topic	Page
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5	IMF Related Assets and Liabilities	64
6	Monetary Gold	72
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8	Inventories	77
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10	Currency in Circulation	88
11	Other Assets and Liabilities	90
12	Capital, General and Other Reserves	90
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19	Realized and Unrealized Gains and Losses	115
20	Profit Distribution	117
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22	Related Party Transactions	122
23	Provisions, Contingencies and Commitments	125

### ■ User Guidance

The order and detail in the notes should be designed to aid the reader. Readers typically want to see the components of an item in the primary statements, with the major items first and smaller items grouped. The level of detail and the number of items in each table should be chosen to aid such readership. If it is necessary to further expand an item this could be done in a second table.

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## NOTE 3

# Financial instruments

### ■ *Business Context*

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The most common types of financial assets and liabilities that central banks have in their balance sheet include:

- Cash and cash equivalents;
- Local and foreign currency securities;
- IMF holding rights and subscriptions;
- Deposits, loans to banks and other financial institutions;
- Derivatives (e.g. swaps, futures);
- Notes in circulation;
- Amounts due to commercial banks or other financial institutions;
- Amounts due to Government; and
- Certificates of deposit, or other securities issued by the central bank.

Typically, the foreign currency securities or deposits are related to the foreign reserve management function of the central bank. While local currency investments such as due to commercial banks, or investments in local government securities are related to the monetary policy function of the central bank. For IFRS 9 implementation purposes, central banks did a full assessment of the

respective criteria to define the correct classification and measurement of the financial instruments they had in the balance sheet. As a result, most of the central banks classified their foreign reserve related securities as either Amortized Cost (AC) or FVOCI with their monetary policy instruments as AC. Some central banks also hold strategic investments such as equities in other financial institutions (e.g. Bank For International Settlements (BIS) or Society for Worldwide Interbank Financial Telecommunication (SWIFT)), and most of these have classified these as FVOCI rather than FVPL. [IFRS 9 (4.1.4 & 5.7.5)]

On the liabilities side, central banks also have deposits from commercial banks, government or other institutions and certificates of deposit issued by central banks. Whilst deposits from commercial banks are related to monetary policy, payment systems and the obligatory reserve requirements that central banks apply to commercial banks; deposits from Government reflect the fact that the central bank is normally the official depository and banker (or fiscal agent) of the government.

### ***Recognition***

The Bank of Utopia accounts for all financial instruments using settlement-date accounting. Financial assets and liabilities are recorded when the Bank becomes party to the contractual provisions of the instruments. (BOC)

### ***Initial recognition***

Financial instruments are initially recognized at fair value plus transaction costs, if any, except for financial instruments classified as FVPL, in which case transaction costs are recognized immediately in net income. Note 21 – Fair value of assets and liabilities provides details on how the Bank determines the fair value of its financial instruments. Subsequent to initial recognition, an Expected Credit Loss (ECL) assessment is performed for financial assets measured at Amortized Cost (AC) and FVOCI, and any ECLs are recognized in net income. (BOC)

### ***Derecognition***

The Bank derecognizes a financial asset when it considers that substantially all the risks and rewards of the asset have been transferred or when the contractual rights to the cash flows of the financial asset expire. The Bank does not derecognize collateral pledged by the Bank under standard repurchase agreements and securities-lending transactions, since the Bank retains substantially all risks and rewards on the basis of the predetermined repurchase price. The Bank derecognizes financial liabilities when the Bank's obligations are discharged, are cancelled or expire. (BOC)

### ***Classification and measurement***

Financial assets are classified based on the business model used for managing the assets and their contractual cash flow characteristics.

Financial assets:

- cash and cash equivalents at AC;
- debt instruments at AC;
- debt instruments at FVOCI;
- debt instruments at FVPL;
- derivatives at FVPL;
- equity instruments at FVOCI; and
- Financial liabilities are measured at amortized cost, except for financial liabilities measured at fair value through profit or loss. (NB; BOC)

### ***Impairment***

For financial assets classified as measured at AC and FVOCI, an allowance for expected credit losses is recognised. The recognised amount comprises expected credit losses within the 12 months after the reporting date. In the event of a substantial increase in credit risk, an expected loss allowance is recognised over the expected life of the asset. (NB)

### ***ECL calculation***

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. 12-month ECLs are the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.

ECLs are a probability-weighted estimate of credit losses. Note 4.2 – Credit risk provides details on the ECL measurement methodology. (NBG)

### ***Credit-impaired financial assets***

At each reporting date, the Bank assesses whether financial assets carried at AC and debt financial assets carried at FVOCI are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- an increased / higher probability that the borrower will enter bankruptcy or undertake a financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties. (NBG)

### ***Presentation of allowance for ECL in the statement of financial position***

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at AC: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the respective presentation line of the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the revaluation reserve of investments measured at FVOCI. (NBG)

### ***Reclassification***

The Bank shall reclassify all the affected financial assets when it changes its business model for managing financial assets. The Bank shall not reclassify any financial liability.

### ***Write-off policy***

The Bank writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Bank's recovery procedures. Any recoveries made are recognized in net income. (BOC)

### ***Offsetting***

Financial assets and financial liabilities are offset so that the Bank presents in the statement of financial position the net amount when the Bank has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously. (CBC)

***Business model assessment***

The Bank makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- Objectives of holding the portfolio for trading, for contractual cash flows collection etc.;
- Frequency, value and timing of sales (both past and future);
- How the performance of the business model and financial assets are evaluated and reported to the Bank's key management personnel;
- The risks that affect the performance of the business model, in particular, the way in which those risks are managed (to meet the objectives);
- How managers of the business are compensated; e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- Whether collection of contractual cash flows (e.g. interest income received) represents significant part of the portfolios returns. (NBG)

The Bank's objective is achieved by both collecting contractual cash flows and, selling financial assets.

***Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI):***

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment the Bank considers the following:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- leverage features, that modify consideration of the time value of money such as periodic reset of interest rates;
- prepayment and extension features; and
- terms that limit the Bank's claim to cash flows from specified assets (e.g. nonrecourse). (BOJ)



## DISCLOSURE – FINANCIAL INSTRUMENTS

The Bank's financial instruments consist of the following (BOC):

- cash and foreign deposits;
- loans and receivables;
- investments;
- securities purchased under reverse REPO agreement;
- other financial assets;
- banknotes in circulation;
- deposits from financial institutions;
- deposits from government;
- securities sold under REPO agreements;
- loans from foreign central banks;
- certificates of deposit issued by the Bank of Utopia;
- derivatives; and
- other liabilities.

Financial instrument categories	Bank's business model	Cash flow characteristics
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalent at amortized cost	Collect contractual cash flows, hold for cash flow management purposes	Solely payment of principal and interest
<b>Debt instruments at amortized cost</b> <ul style="list-style-type: none"> <li>• Repo and loans to banks</li> <li>• Government of Utopia securities</li> <li>• Way and means advance to government of Utopia</li> <li>• IMF related assets</li> <li>• Other assets</li> </ul>	Collect contractual cash flows, hold for cash flow management purposes	Solely payment of principal and interest
<b>Debt instruments at FVOCI</b> <ul style="list-style-type: none"> <li>• Foreign currency securities</li> </ul>	Held to collect and sale	Solely payment of principal and interest
Financial instruments at FVPL	Other than held to collect and held to collect and sale	The contractual cash flows are not payments of principal and interest
<b>Equity instruments at FVOCI</b> <ul style="list-style-type: none"> <li>• Shares of BIS; IBRD; Regional Development Bank; SWIFT</li> </ul>	Do not hold for trading, hold as part of the Bank's functions as a central bank	Dividend payments
<b>FINANCIAL LIABILITIES</b>		
<b>Financial liabilities at amortized cost</b> <ul style="list-style-type: none"> <li>• Deposits</li> <li>• Due to government</li> <li>• Due to foreign central banks and other financial institutions</li> <li>• CB Bills</li> <li>• Due to IMF</li> <li>• Other liabilities</li> </ul>	Pay contractual cash flows	N/A

Typically, central bank liabilities are classified and measured at AC. In rare cases, central banks might have financial liabilities classified at FVPL such as financial derivatives or when this designation eliminates, or significantly reduces, inconsistencies from accounting mismatch between assets and liabilities (e.g. Bank of England 2019 Financial Statements Section 3 – Financial Instruments, Liabilities).

The central bank can either list its financial instruments or list the categories indicating which financial instruments fall under that category. The presentation provided here is not a requirement of IFRS 9 or 7, but it gives the reader a good understanding of what financial instruments the central bank has.

The central bank must provide a list of their financial assets and liabilities and state how the instruments are subsequently measured, indicate where the fair value movements, ECL and/or interest rates applied are recognized, and what happens when the financial assets and liabilities are derecognized.

Most central banks do not use a tabular form though such a presentation is often easier for the reader to quickly understand the composition of the financial instruments. Some central banks include this information with Classification in paragraph format.

In rare cases, central banks may need to renegotiate or modify the contractual cash flows of a financial asset. In this case, should the renegotiation or modification not result in the derecognition of that financial asset, the Bank recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss. (IFRS 9, 5.4.3)

Should the renegotiation or modification of the contractual cash flows of a financial asset lead to the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a ‘new’ financial asset. (IFRS 9, B5.5.25)

## Note 3.1 Cash and cash equivalents

### ■ Business Context

The definition of cash and cash equivalents causes some practical problems for central banks as it does not really suit the operations of the central bank. Central banks usually hold very liquid assets such as cash and short-term deposits for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Most of the short-term assets will typically be in foreign currency. Central banks may hold foreign currency banknotes as cash. They cannot record their own notes as an asset. Short term deposits in foreign currencies are held to meet the needs of the foreign currency operations, typically to address the requirements of the central bank's customers, for example the government and commercial banks.

In domestic currency, the short-term assets will be monetary policy loans, such as repos. Central banks do not need to hold deposits as an asset to make payments. Central banks differ in the treatment of repos. Some do include these in cash and cash equivalents, others as operating items.

### DISCLOSURE – CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term commitments (these investments include short-term deposits where the maturities do not exceed three months from the acquisition date). (BOJ)

Annual interest rates range between 0.0%-5.0% [2018 0.0%-5.0%] on time deposits with financial institutions up to 90 days. (NBG)

The Composition of the Bank's Cash and Cash Equivalent holdings is provided in the following table:

As at December 31 (LC 000)	2019	2018
<strong>FOREIGN CURRENCY</strong>		
Cash in hand	689,978	530,458
Current accounts in foreign currencies	2,810,673	1,663,864
Time deposits with credit institutions up to 90 days	16,176,434	16,879,708
Less: Allowance for impairment losses	(5,260)	(6,163)
Total cash and cash equivalents in foreign currency	19,671,825	19,067,867
<strong>LOCAL CURRENCY</strong>		
Local currency demand deposits	657,756	518,053
<strong>TOTAL CASH AND CASH EQUIVALENTS</strong>	<strong>20,329,581</strong>	<strong>19,585,920</strong>

## ■ User Guidance

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According to the standard, for an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. [IAS 7.7] These may include, but are not limited to, cash on hand in foreign currency, unrestricted balances on correspondent accounts and amounts due from financial institutions, including time deposit accounts and overnight deposits, that mature within ninety days from the date of origination and are free from contractual encumbrances. (NBG)

Some central banks may include in this item deposits with maturity more than three months. In such cases, central banks should be cautious not to name the item as “cash and cash and equivalent” but differently e.g. “Cash and balances with banks” (BOA) or “Cash and balances with central banks and other banks”. (BOT)

In any case, for “Statement of cash flows” purposes “Cash and Cash equivalent” should be clearly defined. The standard requires the central bank to disclose the components of cash and cash equivalents and to present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the statement of financial position. [IAS 7.45]

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## Note 3.2 Foreign reserve financial instruments

### ■ *Business Context*

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A central bank's responsibility of managing foreign reserves is specified in the respective law, but also in the respective investment strategies or policies. Central banks hold and manage foreign reserves to protect the country from external risks by maintaining sufficient liquidity to absorb losses during potential financial crises. They also hold them for operational purposes, for example to finance foreign exchange market interventions or to execute foreign currency payments. In order to ensure capital preservation but also liquidity, the assets of the foreign reserve portfolio are invested on conservative grounds. Although profitability of the foreign reserve portfolio is not an objective per se, central banks aim to be as efficient as possible in order to have a profitable portfolio, within the approved conservative limits, ratings and allowed counterparts. Such strategies often refer to a hierarchical prioritization of capital preservation first, followed by liquidity, and lastly investment returns.

Although central banks differ in the details of their management policies for these reserves, there are certain common practices. Central banks commonly divide their portfolio into subportfolios for working capital, liquidity and investment – though the terminology may differ. These correspond to the time duration of the components. Working capital will be used for immediate cash flow needs, including import payments, government and other customer payments. The other portfolios will have longer investment horizons.

Under IFRS 9 the accounting treatment should follow the business model and so will be tied to the specific sub-portfolios. It is important to ensure consistency of description of the portfolio management policies across the whole annual report.

## DISCLOSURE – FOREIGN RESERVE FINANCIAL INSTRUMENTS

The Bank's foreign reserve financial instruments include the following categories:

Financial instruments at AC as at December 31 (LC 000)	2019	2018
Term deposits with external financial institutions	49,738,005	42,154,364
Foreign currency treasury bills	2,192,668	4,100,751
<b>Total financial assets at AC</b>	<b>51,930,673</b>	<b>46,255,115</b>
<b>Debt instruments at FVOCI</b>		
Government debt securities	4,030,735	5,103,445
Central Bank debt securities	2,300,000	2,000,000
<b>Total debt instruments at FVOCI</b>	<b>6,330,735</b>	<b>7,103,445</b>
<b>FINANCIAL ASSETS DESIGNATED AT FVTPL</b>		
Government debt securities	1,082,152	1,651,692
<b>Total</b>	<b>1,082,152</b>	<b>1,651,692</b>
<b>FINANCIAL DERIVATIVES</b>		
Assets	120,000	84,000
Liabilities	8,100	8,000

### a) Debt instruments at amortized cost

Based on its foreign reserve investment policy, the Bank invests in term deposits with external financial institutions and in foreign government Treasury bills. (BOU)

Financial instruments at AC as at December 31 (LC 000)	2019	2018
<b>ASSETS</b>		
<b>Term deposits with external financial institutions</b>		
Maturing within 1 year	49,742,979	42,158,580
Less: Allowance for impairment losses	(4,974)	(4,215)
	<b>49,738,005</b>	<b>42,154,365</b>
<b>Foreign currency Treasury bills</b>		
Maturing within 1 year	2,192,887	4,101,161
Less: Allowance for impairment losses	(219)	(410)
	<b>2,192,668</b>	<b>4,100,751</b>
<b>TOTAL FINANCIAL ASSETS AT AC</b>	<b>51,930,673</b>	<b>46,255,116</b>

## User Guidance

In this note, the central bank discloses the category of the financial instrument, nature of the investment, counterparty and impairment recognized, if any. Besides the traditional financial institutions, some central banks may also invest in term deposits or securities with foreign state-owned banks.

On the liabilities side, central banks may also have deposits mostly in foreign currency from international institutions or organizations (e.g. resulting from the capitalization of quotas and foreign and domestic

receipts, for the operations and payment of expenses of these organizations) (BCB). Normally they are separated in the Balance Sheet but may be covered with the same note. The purpose or nature of these deposits should be covered in the notes. [IFRS 7.8 (g)]

## b) Debt instruments at FVOCI

The Bank invests in Treasury bonds with the bonds issued by the United States Government and by some members of the European Union. (BOU)

Financial instruments at AC as at December 31 (LC 000)	2019	2018
<b>Government debt securities</b>		
Maturing within 1 year	3,000,000	3,500,000
Maturing between 1-5 years	1,030,735	1,603,445
	<b>4,030,735</b>	<b>5,103,445</b>
<b>Central Bank debt securities</b>		
Maturing within 1 year	1,000,000	1,500,000
Maturing between 1-5 years	1,300,000	500,000
	<b>2,300,000</b>	<b>2,000,000</b>
<b>TOTAL DEBT INSTRUMENTS AT FVOCI</b>	<b>6,330,735</b>	<b>7,103,445</b>

## ■ User Guidance

In this note central banks should provide information about the category of the financial instrument, the nature of the asset and the counterparty. [IFRS 7.8 (h)]

## c) Financial assets at FVPL

Financial assets at FVPL represent foreign currency denominated assets managed by the World Bank under its Reserves Advisory and Management Program (RAMP). These financial assets are classified at FVPL on initial recognition on the basis of the management policy given to the World Bank.

Financial assets designated at FVTPL as at December 31 (LC 000)	2019	2018
<b>Government debt securities</b>		
Maturing within 1 year	1,082,152	1,651,692
<b>Total</b>	<b>1,082,152</b>	<b>1,651,692</b>

## ■ User Guidance

Based on the respective investment policy objectives, central banks may classify either as FVPL or FVOCI assets those assets managed by third parties such as World Bank, BIS, or other external managers. In such case, the central bank should provide the necessary information regarding the external manager, reference to any agreement for this purpose, the currency denomination of the portfolio and the respective interest rates applicable.

Besides, central banks may, at initial recognition, irrevocably designate the externally managed financial assets as measured at FVPL if doing so eliminates or

significantly reduces a measurement or recognition inconsistency that is commonly referred to as an accounting mismatch [IFRS 9. 4.1.5].

Should the central bank have trading assets in the balance sheet, different from those above, it should provide details on the type of instruments, the issuing body and objectives of this portfolio.

Derivatives are always classified at FVPL.

[IFRS 7.8(a); IFRS 7.35F; IFRS 7.31; IFRS 7.36]



#### d) Financial derivatives at FVPL

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank. Over-the-counter derivatives may expose the Bank to the risks associated with the absence of an exchange market on which to close out an open position. (BOU 2019)

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the value of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk. (BOU)

Financial derivatives as at December 31 (LC 000)	2019	2018
<b>ASSETS</b>		
Forward foreign exchange contracts	94,000	63,000
Interest rate swaps	26,000	21,000
<b>Total</b>	<b>120,000</b>	<b>84,000</b>
<b>LIABILITIES</b>		
Forward foreign exchange contracts	6,300	5,900
Interest rate swaps	1,800	2,100
<b>Total</b>	<b>8,100</b>	<b>8,000</b>
<b>NOTIONAL AMOUNTS</b>		
Forward foreign exchange contracts (4.5 (a))	1,700,000	1,000,000
Interest rate swaps (4.5 (b))	212,776	611,398

#### ■ User Guidance

Some central banks use swaps or forwards and futures to mitigate or manage exposures from currency or interest rate fluctuations. They may also use them as policy instruments.

In this note, the central bank should provide information about the type of derivative, its fair value, the notional amount and separate derivative assets from derivative liabilities.

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are

transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risks associated with forward and futures contracts are credit risk and liquidity risk. The central bank has a credit exposure to the counterparties of the forward contracts. The credit risk related to futures contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honoured. Forward contracts are settled gross and are, therefore, considered to bear a marginally higher liquidity risk than the futures contracts that are normally settled on a net basis. Both types of contracts result in market risk exposure. (BOU 2019)

## Note 3.3 Monetary policy financial instruments

### ■ Business Context

As stated in most central bank's laws, the main objective of its monetary policy function is to achieve and maintain price stability. For this purpose central banks develop monetary policy instruments to keep a moderate and predictable rate of inflation, which is a necessary precondition for long run economic growth, but also to orient short-term interest rates of

the interbank market close to the central bank's base rate increase the efficiency of the lending process in local currency. That said, all financial instruments used for monetary policy purposes, such as open market operations or standing facilities etc., do not have profitability as their main objective.

### DISCLOSURE – MONETARY POLICY FINANCIAL INSTRUMENTS

Monetary policy and other domestic financial instruments are classified as AC unless otherwise stated. As at yearend, the Bank held the following categories of monetary policy and other domestic financial instruments.

As at December 31"	2019				2018			
	Value (LC 000)	Avg. Remaining maturity (days)	Interest (min/max)	FV of collateral received (LC 000)	Value (LC 000)	Avg. Remaining maturity (days)	Interest (min/max)	FV of collateral received (LC 000)
<b>ASSETS</b>								
Loans due from financial institutions	500,000				550,000			
• Overnight loans (a)	70,000	1	7.01%-7.09%	77,000	50,000	1	7.20%-7.33%	55,000
• Refinancing loans (a)	100,000	7	7.06%-7.13%	110,000	100,000	4	7.38%-7.43%	110,000
• Reverse repurchase agreements (b)	330,000	30	7.09%-7.15%	363,000	400,000	20	7.34%-7.37%	440,000
<b>LIABILITIES</b>								
Loans due to financial Institutions	557.28				557.28			
• Repurchase agreements (c)	557.28	20	7.09%-7.15%	613	557.28	25	7.34%-7.37%	613
Certificates of deposit issued by Bank of Utopia (e)	5,000,944	49	7.1%-7.15%	N/A	3,507,159	55	7.09%-7.33%	N/A

#### a) Loans to financial institutions in Utopia

Overnight and refinancing loans are the Bank's monetary policy instruments to supply Utopian commercial banks with liquidity. They are classified and measured at AC using the effective interest rate method. The loans have 1 day and 7 days maturity respectively (2018 – 1 day and 4 days respectively). (NBG)

#### b) Financial assets purchased under resale agreements (reverse repo)

Securities purchased under resale agreements are composed of overnight repurchase (repo) operations and term repo operations, in which the Bank purchases securities from designated counterparties with an agreement to sell them back at a predetermined price on an agreed transaction date.

The overnight repo matures the next business day and is used to support the effective implementation of monetary policy by injecting intraday liquidity, thereby reinforcing the Bank's target for the overnight rate.

The term repo generally matures 1 to 90 business days after issuance and is used for balance sheet management purposes, to promote the orderly functioning of financial markets and to provide the Bank with information on conditions in short-term funding markets.

Balances outstanding as at yearend consist of reverse repo agreements with original terms to maturity ranging from 30 to 50 days (from 30 to 60 days at December 31, 2018). (BOC)

Purchase transactions of credit instruments under repurchase "REPO" agreements (liquidity injection transactions) are classified and measured at AC on an effective rate basis. For such transactions, the bank recognizes the cash disbursement and constitutes a right (an asset), initially measured at the price agreed or reimbursement amount, which relates to its fair value. Collateral received (securities purchased) are not recognized in the statement of financial position. (CBC)

### ***c) Financial assets sold under repurchase agreements (repo)***

Securities sold under resale agreements consists of overnight repurchase (repo) operations and term repo operations, in which the Bank sells securities to designated counterparties with an agreement to purchase them back at a predetermined price on an agreed transaction date.

They are used either for withdrawing liquidity from the market or for financial stability purposes and their accounting treatment is the opposite of reverse repos, described in point b.

Balances outstanding as at yearend, consist of repo agreements with original terms to maturity ranging from 20 to 40 days (from 20 to 35 days at December 31, 2018).

### ***d) Collateral pledged under sale and repurchase agreements***

Collateral received in the form of securities through secured lending and borrowing transactions where the Bank has the right to sell or pledge the security, is not recognised in the balance sheet, unless reinvested. Cash collateral received is recognised as Deposits in banks together with corresponding liability. (NB)

### ***e) Securities issued by the Bank of Utopia***

The securities issued by the Bank represent certificates of deposits sold to licensed banks through auctions to absorb the excess liquidity in the monetary market. As at December 31, 2019, the nominal value of the securities issued by the Bank is LC 5.010.000 (2018: LC 3.520.00). During 2019, the average remaining maturity of the certificates of the Bank was 49 days (2018: 55 days). (NBM)

### ***f) Balances of commercial banks***

Balances of commercial banks include correspondent accounts, overnight deposits and obligatory minimum reserves of commercial banks of Utopia. Obligatory reserve amounts in national and foreign currency are included in the corresponding account balances. The top three balances of commercial banks amount to 20% of total balances of commercial banks at the end 2019 and 2018.

Resident commercial banks are required to maintain obligatory reserves with the Bank. As at December 31, 2019 the obligatory reserves are calculated as 15% of commercial banks' eligible liabilities denominated in national currencies (2018: 16%), and 3% of their eligible liabilities denominated in foreign currencies (2018: 2%). Borrowings with a remaining maturity of over one year in national currency and over two years in a foreign currency are exempt from reserve requirements. (NBG)

## Note 3.4 Utopian government securities and balances

### ■ Business Context

Central banks typically act as the main bankers to the government, holding the main account. Governments may hold accounts with commercial banks for operational convenience, but in such cases, it is common for the excess balances on these to be transferred into a central account, which in turn funds these operating accounts.

Most central bank laws prohibit outright lending to the central government in the form of monetary or budgetary financing. But they may allow for temporary facilities up to a limit with defined repayment/duration criteria.

Central banks are also commonly prohibited from participation in the primary markets for government securities but are allowed to buy securities in the secondary market. However, governments may have converted loans given in the past to securities with varying terms and which are commonly not marketable. Under IFRS such securities need to be fair valued on origination and such fair values may be lower than nominal value.

### DISCLOSURE – UTOPIAN GOVERNMENT SECURITIES AND BALANCES

The Bank holds securities of the Government of Utopia for both monetary policy and investment purposes. Government of Utopia securities and balances are classified as AC using effective interest rate method.

As at December 31	2019			2018		
	Value (LC 000)	Avg. Remaining maturity (days)	Interest (min/max)	Value (LC 000)	Avg. Remaining maturity (days)	Interest (min/max)
<b>ASSETS</b>						
Government securities (a)	349,000	132	11%-12%	450,000	127	11%-13%
Advances to government (b)	1,234,500	140	8%-9%	1,100,000	130	9%-10%
<b>LIABILITIES</b>						
Due to government and other state-owned institutions (c)	7,555,118	175	N/A	9,000,228	130	N/A

#### a) Government of Utopia Securities

Government of Utopia Bonds in local currency represent interest bearing securities issued by the Ministry of Finance of Utopia. Government of Utopia Bonds are typically held to maturity unless sold for monetary policy purposes. As securities mature, the Bank participates in the secondary market in a neutral (non-market maker) manner to re-invest the funds at market rates. Government of Utopia Bonds may also be given as collateral in monetary policy operations or used for securities lending. At December 31, 2019 and 2018, the Bank had not given any securities as collateral.

The following table presents the carrying amounts for Government securities.

2019			2018		
Carrying amount (LC 000)	Remaining maturity (days)	Coupon rate	Carrying amount (LC 000)	Remaining maturity (days)	Coupon rate
195,000	182	12%	200,000	170	13%
100,000	120	11%	150,000	130	11%
54,000	95	11%	100,000	80	12%
<b>349,000</b>			<b>450,000</b>		

### **b) Advances to Government**

Advances to the Government represent temporary financial accommodation in local currency with original maturity of up to 1 year to finance short term financial gap between the receipts from budgeted revenue and Utopian Government expenditures. (BOT)

The borrowing is guided by the Bank's Act which stipulates that the total amount of advances outstanding at any time made by the Bank under this section shall not exceed 10% (2018: 10%) of the domestic revenue of the Government for the previous financial year and must be repaid within 4 months of yearend (RBM).

The loan is guaranteed by deed of the Minister of Finance. Principal and interest are repaid at maturity with early repayment permitted. The amount of loan outstanding as at yearend 2018 was fully repaid in March 2019.

### **c) Due to Government and other state-owned institutions**

Based on the legal framework in force, the Bank pays interest on the deposits by the Government of Utopia at short-term market rates. Interest expense on deposits is included in net income. (BOC)

As at December 31 (LC 000)	2019	2018
Accounts and deposits with the government-foreign currency	7,206,767	7,164,579
Accounts and deposits with the government-local currency	348,351	1,835,649
<b>Total</b>	<b>7,555,118</b>	<b>9,000,228</b>

## **■ User Guidance**

It is likely that central banks hold securities issued by their local government (most frequently denominated in local currency). Reasons for the holdings might be direct purchases in the secondary market for monetary policy purposes, conversion into securities of old loans issued to the government etc. The securities are typically classified as AC, though it is feasible to designate them as FV depending on the marketability of the securities and the business model under which they are held by a central bank. Central bank may also hold government securities issued for recapitalization purposes based on the respective central bank laws. Their classification varies among central banks depending on the characteristics detailed in the bond's documentation.

Common information that readers of central bank financial statements would be interested in are as follows:

- Classification of the securities (AC, FVOCI, FVPL);
- Segregation of security holdings by issuer (local government vs other);
- Description of nature of securities (are they marketable, do they represent special purpose issue, etc.);
- Whether securities are denominated in local or foreign currency. This information is important because local currency denominated government

securities are generally perceived as risk-free and represent liquid assets held by a central bank. On the other hand, foreign currency securities bear higher credit risk;

- Information about maturity of the securities;
- Information about respective interest rates.

Since government securities are financial instruments, they should be referred to in risk management disclosures. It is also necessary to disclose the securities under related party note. Appropriate references to the other disclosures should be provided.

See also “Domestic securities” (NBU), “Malawi Government Treasury Notes” (RBM), “Investments measured at amortised cost” (NBG)

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In some cases, central banks might have issued loans to the government. Such exposure differs from purchase of government securities on secondary market. Most likely the loan will be carried at amortised cost according to IFRS 9 requirements.

If the loan is outstanding, given the nature of this financial instrument, users of financial statements would most likely be interested in the following information:

- Legal background/reference (e.g. legislative requirements or any guiding rules that identify cases when the loan issue is permitted, and which set respective limits);
- Description of nature of the loan (e.g. purpose of the loan and whether the loan issue is current practice for the central bank rather than retained balance from prior periods);
- Loan terms such as currency, maturity, interest rate, payment schedule, collateral if any, etc.;
- Information about past renegotiations of the loan. Frequent renegotiations of schedule (postponement of repayment) may be indicator of impairment;
- Explanation of change between one year and next. Also, it may be appropriate to give maximum amount during the year if the yearend position is not representative.

Since the government loan is a financial instrument, it should be referred to in risk management disclosures. It is also necessary to disclose the loan under related party note. Appropriate references to the other disclosures should be provided.

See also “Due from Government of Kenya” (CBK); “Advances to Government” (BOT); “Advances to Malawi Government” (RBM)

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Deposits from Government are best separated by the type of deposit and an indication made as to whether the deposits are interest or non-interest bearing. This is a requirement because they are related party transactions.

Additional disclosures may include a breakout of local currency deposits as distinct from foreign currency deposits.

Although government deposits and accounts are a material item compared to the deposits from other institutions, it would still be better to provide a short description related to the latter. “Other state institutions” include state owned institutions or other third parties such as agencies. They reflect the fact that the central bank is their official depository, based on the provisions set out in the respective legislations.

Disclosures may include information on the specific type of deposit being held by the state institution or the third party and whether interest bearing.

Central banks may have deposits from international organizations both in local or foreign currency for several purposes (e.g. resulting from the capitalization of quotas and foreign and domestic receipts, for the operations and payment of expenses of these organizations).

See also “Deposits from international financial organizations” (BCB)

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It is likely that central banks have deposits/current accounts from local commercial banks. The balances may serve a general purpose to settle transactions with commercial banks or a specific purpose such as obligating commercial banks to maintain minimum reserve requirements, serving as collateral for issued loans, etc. Considering the nature of these liabilities, they are likely to be accounted for at AC.

The deposit liabilities will most likely be measured at AC. There is no specific indication in IFRS as to how the deposit liabilities should be disclosed. Common information that readers of financial statements would be interested in are as follows:

- Description of type/nature of existing deposit accounts. Central banks usually set minimum reserve requirements (in both local and foreign currencies) for commercial banks. These accounts differ in nature from general current accounts in terms of their availability to commercial banks, calculation of interest rates, etc. If there are special purpose and/or non-recurring deposits, respective explanations should be disclosed;
- Information about counterparties (whether deposits are placed by commercial banks or other financial institutions) and respective concentrations;
- Information about interest applicable to the deposit liabilities: Interest rates applied at financial year-end with clear indication of which deposits they apply to;
- Segregation of deposits by currency (i.e. local vs foreign). This part might be interesting to external parties (e.g. for IMF with respect to Net International Reserve calculations);
- Maturity profile (this information may also be presented within liquidity section of risk management disclosure).

As deposit liabilities represent financial instruments, they should be referred to in risk management disclosures. Appropriate references to the other disclosures should also be provided.

See also “Due to Resident Financial Institutions” (NBG); “Accounts of Banks” (NBU); and “Due to banks” (BOA)

A central bank may also engage in securities lending programmes, providing the market with a secondary and temporary source of these securities, whereby it transfers assets recognised on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Securities lending transactions are normally fully collateralized with securities or cash that should not be reported as assets and liabilities in the statement of financial position, since the Bank does not have the ability to pledge or sell these securities unless the borrower defaults. The programme may be managed on behalf of the central bank by specialized agents (e.g. Depository Clearstream). Securities lending transactions provide additional income without any material impact on investment liquidity as the securities lent are readily available to the Bank.

See also NBG and BOA



## Note 3.5 Due to foreign central banks

### ■ Business Context

Several central banks in a certain region may develop joint associations to help the participating countries accelerate, among other things, economic growth, social progress and cultural development and increase regional cooperation. (E.g. South Asian Association for Regional Cooperation (SAARC), Asian Clearing Union (ACU) etc.). Under this framework, the

central banks can offer financial facilities to the other members such as short-term loans, currency repurchase transactions, clearing and settlement accounts to facilitate intra-regional transactions, etc. In other cases, loans are made to the jurisdiction on such terms that the central bank has to recognize the loans on its balance sheet.

### ACCOUNTING POLICY—DUE TO FOREIGN CENTRAL BANKS

Transactions carried out in relation to loans in foreign currency from foreign central banks are classified and measured at AC using the effective interest rate method.

### DISCLOSURE – DUE TO FOREIGN CENTRAL BANKS

On December 20, 2018, for reserve management purposes, the Bank entered into a two-year agreement with Bank of Ruritania to receive USD 1.0 million and/or RUD 1,967,400 short term loans at an interest rate of 1.2% and 1.3% per annum respectively, in accordance with the Framework for short term loan arrangements for Regional Economic Association Countries (REAC).

The outstanding balance on December 31, 2019 is LC 10,845,460 (2018 – 3,872,190).

### ■ User Guidance

Beside short-term loans, several central banks, mostly when they are part of regional associations, benefit from foreign currency repurchase arrangements from other central banks when they are experiencing short position in foreign currency.

Transactions carried out in relation to currency agreements whereby there is a purchase of one currency for the sale of another with the arrangement to swap the purchase and sale of currencies at a later date, are treated as a currency repurchase transactions.

A receivable and a payable for the forward leg are created on the date of the initial purchase and sale. The bought currency is treated as a payable that would be paid at agreed intervals in the future and the sold currency is treated as a receivable that would be recovered at agreed intervals in the future. (MMA)

## NOTE 4

# Risk management

### ■ Business Context

The purpose of the Risk Management disclosures is to enable users of the financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed. Most central banks are exposed to credit risk, liquidity risk and market risks to some degree. In addition, operational risk could be relevant to disclose, even though not

a financial risk. Both the exposed risks and how the central banks have organized its Risk Management functions may vary. The level of detail and extent of the disclosed information will have to be adapted for each central bank. The disclosures should essentially be based on information produced internally for management.

### ACCOUNTING JUDGEMENTS AND ESTIMATES – RISK MANAGEMENT

The Bank assesses the ECLs on all instruments measured at Amortized cost or debt instruments measured at Fair Value through Other Comprehensive Income.

#### 1. Impairment

Judgment is required when determining whether there is objective evidence that impairment exists and, if so, the appropriate amount of ECLs to be recognized. The measurement of ECLs reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date regarding past events, current conditions and forecasts of future economic conditions.

Significant judgments that are required for measuring ECLs include:

- determining criteria for assessing whether a financial asset is considered to have low credit risk;
- determining criteria for assessing what constitutes a significant increase in credit risk;
- choosing appropriate models and assumptions for the measurement of ECLs;
- establishing the number and relative weightings of forward-looking scenarios for each type of financial instrument and the associated ECL; and
- establishing groups of similar financial assets for the purposes of measuring ECLs.

Financial assets are categorized into the following three stages depending on their assessed credit risk. Interest revenue is calculated using the effective interest method.

**Stage 1** - Financial assets are typically categorized as Stage 1 when first recognized, unless purchased or originated credit-impaired. The Bank records an allowance for 12-month ECLs in profit or loss, and interest revenue is calculated on the gross carrying amount of the asset.

**Stage 2** - Financial assets are categorized as Stage 2 when they have experienced a significant increase in credit risk since initial recognition. The Bank records an allowance for lifetime ECLs, and interest revenue is calculated on the gross carrying amount of the asset.

**Stage 3** - Financial assets are categorized as Stage 3 when they are considered as credit impaired. The Bank records an allowance for lifetime ECLs, and interest revenue is calculated based on the net carrying amount of the asset (gross carrying amount less the loss allowance), rather than on its gross carrying amount. (BOC)

## **2. Low credit risk**

The Bank considers debt investment securities to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. Considering the Bank's strict investment guidelines, which propose holding of extremely high credit-rated investments, financial instruments held as international reserves are considered to have low credit risk. In addition, the Bank considers exposure to the Government of Utopia, which is denominated in LC, to have low credit risk. Such an approach reflects the general assumption that sovereign debt denominated in local currency is considered to have an extremely low risk of default (usually referred to as "risk-free" from market participant perspective) as well as the fact that due to the unique link between the Bank and the Government of Utopia, the Bank maintains the main current account of the Ministry of Finance of Utopia. The Bank does not apply the low credit risk exemption to any other financial instruments. (NBG)

## **3. Significant increase in credit risk**

In determining whether the credit risk on a financial instrument has increased significantly from initial recognition in estimating ECLs, the Bank considers reasonable and sustainable information that is available without undue cost or effort. This includes quantitative and qualitative information and analyses, based on the Bank's historical experience and an informed credit assessment including forward-looking information. (CBC)

## **4. ECL measurement**

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are derived from internally developed statistical models, globally recognized external developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors, including forward-looking information. Transition matrices are used to derive the PD for foreign counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates, or parameters calculated by rating agencies and regulatory institutions such as the BIS in Basel, of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract

including amortisation. The EAD of a financial asset is its gross carrying amount (including accrued interest owing). EAD estimates are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL comprise financial assets in foreign currency as follows: (BOA)

Exposure	External benchmark used	
	PD	LGD
"Cash and balances with banks (current accounts and deposits)"	.....	2nd best rating (from: state rating company eg. S&P, Moody's, Fitch ect.) State the reference eg. Moody's recovery studies ect.
Investments securities in foreign currency	.....	2nd best rating (from: state rating company eg. S&P, Moody's, Fitch ect.) State the reference eg. Moody's recovery studies ect.

## 5. Definition of default

All financial assets measured at AC or FVOCI, which are overdue for 1 day or more, are considered to be in default except for exposure to the Government of Utopia which would be considered to be in default if overdue for more than 180 days. This represents a rebuttal of the presumption of IFRS 9 that the default does not occur later than when the financial asset is 90 days past due. However, it reflects the circumstances of the Government's budgetary approval processes and the Bank's unique relationship with the Government as it acts as banker and fiscal agent of the Government. (NBG)

## DISCLOSURE – RISK MANAGEMENT

The activities of the Bank are exposed to various types of risks. These include financial risks in the form of market, credit, and liquidity risks.

Due to its unique role and functions, the Bank's risk management and control is not only based on the institutional risk and return considerations, but also takes into account the national interest, in line with its statutory responsibilities prescribed in the Bank of Utopia Act.

The Bank views risk management as an integral part of overall management process and an essential element of good corporate governance. The Council of the Bank is ultimately responsible for the oversight of the risk management framework, overseeing the management of the key risks and reviewing its risk management policies and procedures.

To support the effective and efficient risk management system, the Bank established a three lines of defence model. The model allocates clear roles and responsibilities for business departments, risk management and internal audit.

The first line of defence (department level) is responsible for identifying, assessing and managing the risks in their respective departments by designing, implementing and maintaining an adequate and effective system of controls.

The second line of defence comprises groups that are responsible for the ongoing monitoring of the design and operation of controls in the first line of defence, including groups providing advice and facilitating risk-management activities. The Bank has established a Risk Management Department responsible for defining and implementing an effective non-financial risk management framework that is consistent to standards and approaches of best international practices. The Risk Management Department provides independent forward-looking assessment of the risks identified by management, facilitates risk management processes and provides business continuity support. The department is accountable to the Governor and reports quarterly to the Audit Committee.

Internal Audit represents the third line of defence, which ensures the effectiveness, and appropriateness of the risk management and internal control systems. Internal Audit reports administratively to the Governor and functionally to the Audit Committee. Internal audit examines both the adequacy of internal controls and the Bank's compliance with the procedures on a regular basis and reports its findings and recommendations to the Audit Committee. (NBG)

Nature of risks	Management	Guidelines policies issued by	Supervision
Financial risks	At department level	<ul style="list-style-type: none"> <li>Monetary Policy Committee</li> <li>Risk Committee</li> </ul>	Board of Directors/Council
Non financial risks	At department level	Centralized risk management department	<ul style="list-style-type: none"> <li>Internal Audit</li> <li>Audit Committee</li> </ul>

Disclosures on Risk Management are based on requirements in IFRS 7. The standard requires entities to disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period [IFRS 7.31]. The position is required to be given at the end of each reporting period. If the end of year position is not typical of the position during the year, then the entity should give further disclosure.

It can be useful for readers to start the risk management note with a short introduction. Include a description of the financial risks relevant for the central bank and an overview of how risk management is implemented in the organization. This will allow the users to obtain an understanding of how the responsibility of risk management is allocated between the different stakeholders or levels in the organization. The description of the internal organization must be adapted to each central bank and should avoid boilerplate text.

The disclosures required by IFRS 7.31-42 need to be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a Management Commentary or Risk Report that is available to users of the financial statements on the same terms as the financial statements, and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete [IFRS 7. B6].

See also BOE, BOC and BOT

## Note 4.1 Framework for financial risk

### DISCLOSURE – FRAMEWORK FOR FINANCIAL RISK

The Bank, compared to other financial institutions in the market, is involved in policy-orientated activities rather than profit-oriented activities. Therefore, the Bank's risk management framework differs from the risk management frameworks for most other financial institutions. The main financial risks to which the Bank is exposed include credit risk, liquidity risk and market risk (interest and currency). In the management of foreign reserves, minimizing liquidity risk is the prime consideration in order to maintain an effective foreign exchange intervention capability. Like most other central banks, the nature of the Bank's operations creates exposures to a range of operational risks. (BOU)

The Bank uses financial instruments as a means of achieving its monetary policy and financial stability objectives (in domestic currency) and also for managing international reserves (in foreign currency). These two portfolios have different risk policies and characteristics, both of them are managed by the Financial Market Department. The following description of financial risks presents the main risks to which these two portfolios of financial instruments are exposed, as well as the management policy of these risks. (NBG)

#### ***a) Foreign exchange reserves***

According to Bank of Utopia Act the Bank is eligible to hold and manage an international reserve portfolio. The Bank maintains a portfolio to support its monetary and exchange policies and normal functioning of domestic and foreign payments. Reserves are also employed to protect the country from external vulnerabilities by maintaining sufficient liquidity to absorb shocks during a financial crisis. Therefore, the multiple objectives of holding international reserves feature safety, liquidity, and profitability. Hence, assets under the international reserve portfolio are invested on a conservative basis to facilitate these objectives, with an emphasis on liquidity and capital preservation. For instance, the Bank's Foreign Reserve Investment Guidelines prioritize the preservation of capital and a high level of liquidity of reserves. Once these conditions are met, return is to be maximized.

The portfolio is managed in line with investment guidelines approved by the Council. The Risk Committee of the Bank is responsible for monitoring and implementation of financial risk mitigation measures prescribed in the investment guidelines and making sure that the Bank operates within the established risk parameters. Typical activities of the Risk Committee are reviewing the monthly reports, approving the list of eligible counterparties, approving changes to the strategy before submitting them to the Council and occasionally making important tactical decisions on asset allocation. The Risk Management and Control Division of the Bank is responsible for the overall day-to-day risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing, and reporting risks. (NBG)

#### ***b) Monetary policy portfolio***

Monetary policy is executed mainly through financial instruments such as Utopian government securities, loans to commercial banks, certificates of deposit and minimum reserve requirements for commercial banks. The Monetary Policy Committee is responsible for monitoring and implementing risk mitigation tools, such as collateral requirements for refinancing loans. (NBG)



## ■ *User Guidance*

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Most central banks have close monitoring of both financial and non-financial risks. However, even though many of the risk factors are similar to those in commercial banks, the objectives may be different for a central bank. Therefore, it will be useful guidance to the users of the financial statements to give a short description on how and why financial risk differs from commercial banks – especially with the difference between domestic and foreign financial instruments.

## Note 4.2 Credit risk

### DISCLOSURE – CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

#### *a) Foreign exchange reserves*

In order to control the credit risk of the financial instruments used in the international reserves operations, the strategic asset allocation limits the exposures to credit risk of countries, counterparties and issuers, by setting concentration limits and minimum long-term credit ratings, established by international rating agencies (Standard & Poor's, Moody's and Fitch).

Additionally, the Investment Guidelines limit the concentration into non-benchmark financial instruments and the portfolio is diversified into various money market instruments, as well as fixed income and floating rate securities (Government Bonds, Agency including Regional Governments and Supranational Securities) and other liquid, highly secure instrument types. (NBG)

Eligible counterparties are selected based on a number of criteria, such as credit rating, country of residence, the volume of its assets and capital, and its relevant experience.

#### *b) Assets denominated in domestic currency*

Assets denominated in domestic currency are mainly related to instruments in the monetary policy portfolio and include loans to banks, investment debt securities issued by the Government of Utopia and in addition, loans to employees included in other financial assets. As the primary purpose of the Bank's actions is the successful implementation of its monetary policy operations, the Bank's credit risk management for assets denominated in domestic currency is subject to the requirements of policy implementation.

For the monitoring of credit risk for these assets, the Bank uses both external and internally developed analysis and information, which includes also information available to the Bank due to its role as regulator and central bank.

For loans to domestic commercial banks (overnight loans and reverse repo transactions), the Bank mitigates the credit risk through collateral, which consists of debt securities issued by the Government of Utopia. The collateral value for each transaction is not lower than the value of the granted loan plus a certain margin. If the value of the security placed as collateral drops below a defined level, the Bank requires that the commercial bank places additional collateral, based on the revaluation of the securities.

The risk grading model used by the Bank for the assessment of ECLs for loans to domestic commercial banks is based on criteria that are similar to those used for supervisory purposes, such as the capital adequacy, credit growth, liquidity and profitability of the counterparties. The risk grades and the methodology are subject to regular reviews by the Bank.

Investment securities denominated in domestic currency consist of Treasury bills issued by the Government of Utopia, with maturity of up to one year. This portfolio is acquired as the Bank intervenes in the money market through outright transactions intended to manage the liquidity structure of the banking system with potential impact in the short-term interest rates in this market. (BOA)

Credit risk is not measured and presented as one figure but is rather the sum of exposures to a number of counterparties. To give the users of the financial statements an understanding of credit risk, most central banks present financial assets and liabilities based on credit ratings from external rating agencies (e.g. Standard & Poor's, Moody's, Fitch), in addition to concentration of risk (e.g. geographic, sector etc.). [IFRS 7.35A – 7.38]

The types of credit risk exposures for a central bank vary. Within foreign exchange management, the credit risk is usually low as a large portion of the investments is in highly rated government-issued securities. However, based on the central bank's mandate, the central bank can be exposed to risks on its domestic loans, corporate securities (as part of stabilization programs), etc. Therefore, it is necessary to present informative disclosures on credit risk, even if it is often considered to be low.

See also BOA

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The size and nature of assets denominated in domestic currency, often used as part of the monetary policy operations, varies between central banks. A description of how this is relevant in each central bank is important to inform the users of the financial statements.

Typically, central banks use government securities denominated in domestic currency as collateral to mitigate credit risk. However, sometimes the accepted types of collateral might also be debt securities issued by the international financial institutions, denominated in domestic currency, foreign currency deposits in the central bank or other types of collateral based on the Council's decision. Nevertheless, central banks apply haircuts to each type of collateral usually defined by the central bank's Monetary Policy Committee. In special cases defined by the respective Law, the central bank's Council can also grant a Lender of Last Resort loan without collateral. The central bank has the first line (claim) on the borrowers' assets according to the Law.

Exposure to financial institutions will most likely be subject to impairment requirements of IFRS 9. Despite the fact that, in general, detailed disclosure about impairment of financial assets is promoted, central banks may be reluctant to disclose the lowest level of

detail on its domestic portfolio. In many cases such direction may be driven by the existence of only a small number of borrower financial institutions which can expose to the users of the financial statements the identity of the financial institution is impaired (such information might be confidential). In other words, excessive disclosure of the impairment details or very conservative presentation might contribute to a "bank run" and undermine financial system stability. Disclosure of impairment should enable users of the financial statements to understand credit quality of central bank's assets and contribute to general understanding of financial system in the country, rather than to help identify specific financial institutions which may have financial difficulties (other than cases when such information is already publicly available).

See also NBS

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Most of a central bank's IFRS 9 related exposures lie with its holdings of sovereign's instruments, both foreign and domestic. For the country's sovereign issued domestic instruments, the position needs more consideration and will depend on the country. In advanced economies, this is less of an issue as the sovereign is not likely to default on its payments – whether with market actors or the central bank. In developing and frontier economies, default may be a greater concern. IFRS 9 remains an 'expected' credit loss model based on a 'point in time' assessment of the exposure (as of the reporting date). The central bank is in a unique position in its relationship with its sovereign and the IMF continues to support the premise that, if the sovereign has not defaulted in local or foreign currency debt in recent history and has a track record of managing its budget even in difficult times, these instruments should continue to be considered at negligible risk of default. While certain crises (e.g. Covid-19 pandemic) will strain this premise, the central bank must look not just to the circumstances on the reporting date when assessing its ECL determination but also look forward to the sovereign's ability to manage its obligations. Foreign currency own sovereign issued instruments will pose a greater risk as the country does not have the ability to create the foreign currency needed to settle the obligation, an aspect that must be considered at any time, pandemic or not.

## Note 4.3 Credit quality analysis

### DISCLOSURE – CREDIT QUALITY ANALYSIS

The total assets of the Bank that are exposed to credit risk are presented in the table below according to the asset's classification. The classification according to external credit rating is done based on credit ratings published by Standard & Poor's, Moody's and Fitch. If there is a difference in rating, the lowest rating is used.

As at December 31 (LC 000)	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Cash and balances with banks in foreign currency</b>								
AAA	2,051,531			2,051,531	1,234,137			1,234,137
AA	–			–	–			–
AA-	42,087,466			42,087,466	30,006,837			30,006,837
A+	–			–	–			–
A	–			–	–			–
A-	9,079			9,079	10,780			10,780
BBB+	8,692,266			8,692,266	7,382,311			7,382,311
BBB-	–			–	–			–
B+	104			104	104			104
State-owned banks	15,206,577			15,206,577	21,716,150			21,716,150
Not rated	2,031,017			2,031,017	1,400,753			1,400,753
<b>Gross carrying amount</b>	<b>70,078,040</b>			<b>70,078,040</b>	<b>61,751,073</b>			<b>61,751,073</b>
<i>Loss allowance</i>	<i>(10,453)</i>			<i>(10,453)</i>	<i>(10,788)</i>			<i>(10,788)</i>
<b>Net carrying amount</b>	<b>70,067,587</b>			<b>70,067,587</b>	<b>61,740,284</b>			<b>61,740,284</b>
<b>Holdings with IMF</b>								
AAA	2,537,070			2,537,070	2,337,041			2,337,041
<b>Gross carrying amount</b>	<b>2,537,070</b>			<b>2,537,070</b>	<b>2,337,041</b>			<b>2,337,041</b>
<i>Loss allowance</i>	<i>–</i>			<i>–</i>	<i>–</i>			<i>–</i>
<b>Net carrying amount</b>	<b>2,537,070</b>			<b>2,537,070</b>	<b>2,337,041</b>			<b>2,337,041</b>
<b>Foreign securities with governments, agencies and banks</b>								
AAA	6,525,360			6,525,360	9,707,107			9,707,107
AA+	851,255			851,255	1,050,315			1,050,315
AA	800,240			800,240	–			–
AA-	349,105			349,105	450,135			450,135
<i>Loss allowance (recognized in other comprehensive income)</i>	<i>(2,557)</i>			<i>(2,557)</i>	<i>(3,361)</i>			<i>(3,361)</i>
<b>Net carrying amount - fair value</b>	<b>8,523,403</b>			<b>8,523,403</b>	<b>11,204,196</b>			<b>11,204,196</b>
<b>Other foreign currency assets (equity instruments)</b>								
AAA	8,100			8,100	8,000			8,000
Not rated	–			–	–			–
<b>Gross carrying amount</b>	<b>8,100</b>			<b>8,100</b>	<b>8,000</b>			<b>8,000</b>
<i>Loss allowance</i>	<i>–</i>			<i>–</i>	<i>–</i>			<i>–</i>
<b>Net carrying amount</b>	<b>8,100</b>			<b>8,100</b>	<b>8,000</b>			<b>8,000</b>
<b>Domestic government exposures</b>								
Not rated	1,583,500			1,583,500	1,550,000			1,550,000
<b>Net carrying amount - fair value</b>	<b>1,583,500</b>			<b>1,583,500</b>	<b>1,550,000</b>			<b>1,550,000</b>
<i>Loss allowance (recognized in other comprehensive income)</i>	<i>–</i>			<i>–</i>	<i>–</i>			<i>–</i>
<b>Domestic financial institutions exposures</b>								
Not rated	559,521			559,521	593,982			593,982
<b>Net carrying amount</b>	<b>559,521</b>			<b>559,521</b>	<b>593,982</b>			<b>593,982</b>
<i>Loss allowance (recognized in other comprehensive income)</i>	<i>–</i>			<i>–</i>	<i>–</i>			<i>–</i>
<b>Other financial assets (loans to staff and other)</b>								
Not rated	132,154			132,154	306,375			306,375
<b>Gross carrying amount</b>	<b>132,154</b>			<b>132,154</b>	<b>306,375</b>			<b>306,375</b>
<i>Loss allowance</i>	<i>–</i>			<i>–</i>	<i>–</i>			<i>–</i>
<b>Net carrying amount</b>	<b>132,154</b>			<b>132,154</b>	<b>306,375</b>			<b>306,375</b>

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

(LC 000)	2019				2018			
	"Stage 1 12-month ECL"	"Stage 2 Lifetime ECL not credit- impaired"	"Stage 3 Lifetime ECL credit- impaired"	Total	"Stage 1 12-month ECL"	"Stage 2 Lifetime ECL not credit- impaired"	"Stage 3 Lifetime ECL credit- impaired"	Total
<b>CASH AND BALANCES WITH BANKS</b>								
Opening balance at 1st of January	10,788	–	–	10,788	11,000	–	–	11,000
Financial assets that have been released	(630)	–	–	(630)	(715)	–	–	(715)
New financial assets recognized	295	–	–	295	503	–	–	503
<b>Balance at 31st of December</b>	<b>10,453</b>	<b>–</b>	<b>–</b>	<b>10,453</b>	<b>10,788</b>	<b>–</b>	<b>–</b>	<b>10,788</b>
<b>FOREIGN SECURITIES AT FVOCI</b>								
Opening balance at 1st of January	3,361	–	–	3,361	3,531	–	–	3,531
Financial assets that have been released	(964)	–	–	(964)	(521)	–	–	(521)
New financial assets recognized	160	–	–	160	351	–	–	351
<b>Balance at 31st of December</b>	<b>2,557</b>	<b>–</b>	<b>–</b>	<b>2,557</b>	<b>3,361</b>	<b>–</b>	<b>–</b>	<b>3,361</b>
<b>TOTAL</b>								
Opening balance at 1st of January	14,149	–	–	14,149	14,531	–	–	14,531
Financial assets that have been released	(1,594)	–	–	(1,594)	(1,236)	–	–	(1,236)
New financial assets recognized	455	–	–	455	854	–	–	854
<b>Balance at 31st of December</b>	<b>13,010</b>	<b>–</b>	<b>–</b>	<b>13,010</b>	<b>14,149</b>	<b>–</b>	<b>–</b>	<b>14,149</b>

The above loss allowance for debt investment securities at FVOCI is not recognized in the statement of financial position because the carrying amount of these assets is their fair value.

## ■ User Guidance

Most central banks use the published ratings for the majority of this table. However, there may be no ratings for some assets, particularly domestic assets. Here central banks will need to use judgment in how best to describe these. They need to be careful not to reveal internal assessments if these are not in the public domain.

[IFRS 7.35 M]

## Note 4.4 Concentration risk

### DISCLOSURE – CONCENTRATION RISK

Concentrations arise where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to minimize excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a low credit risk profile. (NBG)

#### a) Geographical Concentration

The Bank's geographical concentration risk of its financial assets and was as follows:

Assets as at December 31, 2019 (LC 000)	United States of America	EU countries	UK	Japan	Ruritania	Hong Kong	Singapore	Utopia	Others	Total
Cash and cash equivalents	1,551,326	2,590,091	726,261	-	8,437,901	1,105,575	3,191,025	1,458,101	1,269,302	20,329,582
Deposits with banks and FIs	-	-	-	-	13,764,115	-	30,473,518	-	5,500,372	49,738,005
Securities at AC	-	-	-	-	2,192,668	-	-	349,000	-	2,541,668
Securities at FVPL	1,082,152	-	-	-	-	-	-	-	-	1,082,152
Securities at FVOCI	4,630,735	1,700,000	-	-	-	-	-	-	-	6,330,735
Loans due from FIs	-	-	-	-	-	-	-	500,000	-	500,000
Derivatives	-	-	-	-	-	-	-	120,000	-	120,000
Equity investments	-	-	-	-	-	-	-	-	8,100	8,100
Monetary gold	-	-	108,000	-	-	-	-	-	-	108,000
IMF related assets	-	-	-	-	-	-	-	-	2,537,070	2,537,070
Advance to government	-	-	-	-	-	-	-	1,234,500	-	1,234,500
Loans to staff	-	-	-	-	-	-	-	31,882	-	31,882
Other assets	-	-	-	-	-	-	-	59,521	100,273	159,793
<b>Total</b>	<b>7,264,213</b>	<b>4,290,091</b>	<b>834,261</b>	<b>-</b>	<b>24,394,685</b>	<b>1,105,575</b>	<b>33,664,543</b>	<b>3,753,003</b>	<b>9,415,117</b>	<b>84,721,487</b>

Liabilities as at December 31, 2019 (LC 000)	Internat'l	Ruritania	Utopia	Total
Currency in circulation	-	-	14,467,118	14,467,118
Balances of commercial banks	-	-	23,689,760	23,689,760
Balances of government	-	-	7,555,118	7,555,118
IMF related liabilities	2,096,913	-	-	2,096,913
Due to financial institutions	-	-	8,219	8,219
Certificates of deposits from Bank of Utopia	-	-	5,000,944	5,000,944
Due to foreign central banks	-	10,845,460	-	10,845,460
Other liabilities	-	-	341,786	341,786
<b>Total liabilities</b>	<b>2,096,913</b>	<b>10,845,460</b>	<b>36,595,828</b>	<b>64,005,319</b>

*continues*

Assets as at December 31, 2018 (LC 000)	United States of America	EU countries	UK	Japan	Ruritania	Hong Kong	Singapore	Utopia	Others	Total
Cash and cash equivalents	1,075,296	2,000,000	204,513	–	8,388,150	4,900,261	1,079,291	1,082,409	856,000	19,585,920
Deposits with banks and FIs	–	–	–	15,717,257	21,328,000	–	–	–	5,109,107	42,154,364
Securities at AC	–	–	–	–	4,100,751	–	–	450,000	–	4,550,751
Securities at FVPL	1,651,692	–	–	–	–	–	–	–	–	1,651,692
Securities at FVOCI	4,103,445	3,000,000	–	–	–	–	–	–	–	7,103,445
Loans due from FIs	–	–	–	–	–	–	–	550,000	–	550,000
Derivatives	–	–	–	–	–	–	–	84,000	–	84,000
Equity investments	–	–	–	–	–	–	–	–	8,000	8,000
Monetary gold	–	–	94,000	–	–	–	–	–	–	94,000
IMF related assets	–	–	–	–	–	–	–	–	2,337,041	2,337,041
Advance to government	–	–	–	–	–	–	–	1,100,000	–	1,100,000
Loans to staff	–	–	–	–	–	–	–	36,188	–	36,188
Other assets	–	–	–	–	–	–	–	44,125	270,044	314,169
<b>Total</b>	<b>6,830,433</b>	<b>5,000,000</b>	<b>298,513</b>	<b>15,717,257</b>	<b>33,816,901</b>	<b>4,900,261</b>	<b>1,079,291</b>	<b>3,346,722</b>	<b>8,580,192</b>	<b>79,569,571</b>

Liabilities as at December 31, 2018 (LC 000)	Internat'l	Ruritania	Utopia	Total
Currency in circulation	–	–	13,928,764	13,928,764
Balances of commercial banks	–	–	27,969,888	27,969,888
Balances of government	–	–	9,000,228	9,000,228
IMF related liabilities	1,933,723	–	–	1,933,723
Due to financial institutions	–	–	26,501	26,501
Certificates of deposits from Bank of Utopia	–	–	3,507,159	3,507,159
Due to foreign central banks	–	3,872,190	–	3,872,190
Other liabilities	–	–	1,649,637	1,649,637
<b>Total liabilities</b>	<b>1,933,723</b>	<b>3,872,190</b>	<b>56,082,177</b>	<b>61,888,091</b>

## b) Counterparty/Sector Concentration

The Bank's counterparty/sector concentration risk of its financial assets and was as follows:

Assets as at December 31, 2019 (LC 000)	Foreign banknotes	Foreign Central Banks and Governments	Commercial Banks	Government of Utopia	Other	Total
Cash and cash equivalents	689,978	18,871,481	768,123	–	–	20,329,582
Deposits	–	–	49,738,005	–	–	49,738,005
Securities at AC	–	2,192,668	–	349,000	–	2,541,668
Securities at FVPL	–	1,082,152	–	–	–	1,082,152
Securities at FVOCI	–	6,330,735	–	–	–	6,330,735
IMF related assets	–	2,537,070	–	–	–	2,537,070
Loans to FIs	–	–	500,000	–	–	500,000
Advances to government	–	–	–	1,234,500	–	1,234,500
Derivatives	–	–	120,000	–	–	120,000
Equities	–	–	–	–	8,100	8,100
Monetary gold	–	108,000	–	–	–	108,000
Loans to staff	–	–	–	–	31,882	31,882
Other assets	–	–	–	–	159,793	159,793
<b>Total</b>	<b>689,978</b>	<b>31,122,106</b>	<b>51,126,128</b>	<b>1,583,500</b>	<b>199,775</b>	<b>84,721,487</b>

Assets as at December 31, 2018 (LC 000)	Foreign banknotes	Foreign Central Banks and Governments	Commercial Banks	Government of Utopia	Other	Total
Cash and cash equivalents	530,458	18,503,511	551,950	–	–	19,585,920
Deposits	–	–	42,154,364	–	–	42,154,364
Securities at AC	–	4,100,751	–	450,000	–	4,550,751
Securities at FVPL	–	1,651,692	–	–	–	1,651,692
Securities at FVOCI	–	7,103,445	–	–	–	7,103,445
IMF related assets	–	2,337,041	–	–	–	2,337,041
Loans to FIs	–	–	550,000	–	–	550,000
Advances to government	–	–	–	1,100,000	–	1,100,000
Derivatives	–	–	84,000	–	–	84,000
Equities	–	–	–	–	8,000	8,000
Monetary gold	–	94,000	–	–	–	94,000
Loans to staff	–	–	–	–	36,188	36,188
Other assets	–	–	–	–	314,169	314,169
<b>Total</b>	<b>530,458</b>	<b>33,790,441</b>	<b>43,340,314</b>	<b>1,550,000</b>	<b>358,357</b>	<b>79,569,571</b>



The disclosures should be based on information used internally. Central banks need to be careful in selecting the classifications used in the geographical and counterparty analysis, to avoid potentially awkward changes from year to year. Most central banks disclose the standard categories, e.g. United States (US), Europe and government, central banks.

Central banks may either show a breakdown of the securities by classification or grouped as they are shown in the balance sheet, hence foreign and domestic. Some central banks do not disclose a geographical concentration risk analysis for liabilities, but instead focus only on the credit risk analysis of the geographical concentration. Both approaches are acceptable considering the nature of central banks activities and the relevance of the information, unless a significant event has happened.

Care should be taken to limit the value contained under the category of 'other' to small portion of the total (e.g. 10 percent or less).

## Note 4.5 Market risk

### DISCLOSURE – MARKET RISK

Market risk is the risk that the value of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges rates. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices. (NBG)

#### a) Market risk: currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. Subject to the currency structure of assets, the value of the Bank's assets is exposed to the risk of changes in exchange rates of its main foreign currencies. Within the overall exposure and to a limited extent, foreign currency risk can be partially mitigated by holding assets across a diversified portfolio of currencies. (NBG)

The target currency composition is 70% USD, 23% RUD, 3% EUR and 4% other currencies (GBP, SDR and others). Based on the investment policy, a deviation from target currency composition of +10% is allowed for USD and RUD and +5% for the other currencies. (NBG)

A +1.0% change in Utopia currency across all currencies will result in a profit/loss of around LC 1.0 million.

As at December 31, 2019 (LC 000)	USD	EUR	GBP	RUD	SDR	Other	Total
<b>Assets</b>							
Cash and cash equivalents	2,889,406	158,184	228,216	16,362,777	–	33,242	19,671,825
Deposits with banks and FIs	49,738,005	–	–	–	–	–	49,738,005
Securities at AC	–	–	–	2,192,668	–	–	2,192,668
Securities at FVPL	1,082,152	–	–	–	–	–	1,082,152
Securities at FVOCI	4,630,735	1,700,000	–	–	–	–	6,330,735
Equity investments	2	–	–	7,960	–	138	8,100
IMF related assets	–	–	–	–	2,537,070	–	2,537,070
Derivatives	26,000	–	–	–	–	–	26,000
Other receivables	–	–	–	–	–	100,273	100,273
<b>Total assets</b>	<b>58,366,299</b>	<b>1,858,184</b>	<b>228,216</b>	<b>18,563,405</b>	<b>2,537,070</b>	<b>133,653</b>	<b>81,686,828</b>
<b>Liabilities</b>							
Balances of commercial banks	23,000	–	–	–	–	–	23,000
Balances of government	7,134,266	72,500	–	–	–	–	7,206,767
IMF related liabilities	–	–	–	–	2,096,913	–	2,096,913
Due to financial institutions	7,662	–	–	–	–	–	7,662
Due to foreign central banks	4,107,600	–	–	6,737,860	–	–	10,845,460
Derivatives	1,800	–	–	–	–	–	1,800
Other liabilities	71,086	–	–	–	–	–	71,086
<b>Total liabilities</b>	<b>11,345,414</b>	<b>72,500</b>	<b>–</b>	<b>6,737,860</b>	<b>2,096,913</b>	<b>–</b>	<b>20,252,688</b>
Net currency position on balance sheet	47,020,885	1,785,684	228,216	11,825,545	440,157	133,653	61,434,140
Off balance sheet							
Fx forwards	1,400,000	(300,000)	–	–	–	–	1,100,000
<b>Total currency position</b>	<b>48,426,547</b>	<b>1,485,684</b>	<b>228,216</b>	<b>11,825,545</b>	<b>440,157</b>	<b>133,653</b>	<b>62,534,140</b>
<b>Sensitivity analysis</b>							
Profit/Loss effect: Increase in the currency rate by 1%	36,241	1,000	530	4,462	2,487	227	44,947
Profit/Loss effect: Decrease in the currency rate by 1%	(36,241)	(1,000)	(530)	(4,462)	(2,487)	(227)	(44,947)

As at December 31, 2018 (LC 000)	USD	EUR	GBP	RUD	SDR	Other	Total
<b>Assets</b>							
Cash and cash equivalents	1,505,618	59,439	204,513	17,282,698	–	15,599	19,067,867
Deposits with banks and FIs	42,154,364	–	–	–	–	–	42,154,364
Securities at AC	–	–	–	4,100,751	–	–	4,100,751.2
Securities at FVPL	1,651,692	–	–	–	–	–	1,651,692.3
Securities at FVOCI	4,103,445	3,000,000	–	–	–	–	7,103,445.0
Equity investments	2	–	–	7,860	–	138	8,000
IMF related assets	–	–	–	–	2,337,041	–	2,337,041
Derivatives	21,000	–	–	–	–	–	21,000
Other receivables	–	–	–	–	–	270,044	270,044
<b>Total assets</b>	<b>49,436,122</b>	<b>3,059,439</b>	<b>204,513</b>	<b>21,391,309</b>	<b>2,337,041</b>	<b>285,781</b>	<b>76,714,204</b>
<b>Liabilities</b>							
Balances of commercial banks	19,000	–	–	–	–	–	19,000
Balances of government	7,130,537	34,043	–	–	–	–	7,164,579
IMF related liabilities	–	–	–	–	1,933,723	–	1,933,723
Due to financial institutions	25,944	–	–	–	–	–	25,944
Due to foreign central banks	–	–	–	3,872,190	–	–	3,872,190
Derivatives	2,100	–	–	–	–	–	2,100
Other liabilities	30,655	–	–	–	–	–	30,655
<b>Total liabilities</b>	<b>7,208,236</b>	<b>34,043</b>	<b>–</b>	<b>3,872,190</b>	<b>1,933,723</b>	<b>–</b>	<b>13,048,192</b>
Net currency position on balance sheet	42,227,886	3,025,396	204,513	17,519,119	403,318	285,781	63,666,013
Off balance sheet							
Fx forwards	900,000	(100,000)	–	–	–	–	800,000
<b>Total currency position</b>	<b>43,127,886</b>	<b>2,925,396</b>	<b>204,513</b>	<b>17,519,119</b>	<b>403,318</b>	<b>285,781</b>	<b>64,466,013</b>
<b>Sensitivity analysis</b>							
<b>Profit/Loss effect: Increase in the currency rate by 1%</b>	30,241	1,898	450	6,598	2,078	345	41,610
<b>Profit/Loss effect: Decrease in the currency rate by 1%</b>	(30,241)	(1,898)	(450)	(6,598)	(2,078)	(345)	(41,610)

## b) Market risk: interest rate risk

Interest rate risk is the market risk arising from changes in market interest rates that adversely affect the value of debt securities or other instruments with fixed income and cost of derivative financial instruments (derivatives). (NBU)

Interest rate risk is monitored through the daily measurement of the duration and composition of currencies, and by the monitoring of absolute and relative volatility, in addition to measurement of absolute performance, information ratio and tracking error.

The Bank's exposure to fair-value interest rate risk arises mainly through its investment in foreign exchange reserves. A substantial portion of the foreign exchange reserves is invested in sovereign bonds. The value of fixed income instruments is affected by changes in interest rates in these countries, which in turn affects earnings. Modified duration is a measure of the investments' interest rate sensitivity. At year-end, modified duration 2.59 for the foreign exchange reserves. In isolation, this means that a 1.0% fall in interest rates corresponds to a 2.59 % rise in bond prices. By comparison, modified duration at year-end 2018 was 2.5. At the year-end, the Bank of Utopia does not have deposits at variable rate.

The Bank uses models to quantify the risk of value changes associated with the foreign exchange reserves. This is measured by the standard deviation of the return and is usually referred to as volatility. Absolute volatility provides an estimate of how much the portfolio value can be expected to change in the course of a year, given the current portfolio composition. Relative volatility provides an indication of how much the portfolio is expected to fluctuate compared with its benchmark index. In accordance with the principles for management of the foreign exchange reserves, the maximum expected relative volatility is set at 0.5 percentage point for the foreign exchange portfolio. This implies that the relative return on the portfolio is expected to lie within the range of + 0.5 percentage points in two out of three years.

For calculations, a parametric risk model is used. Daily return data are used where recent observations are given more weight than old ones. These types of risk models make it possible to estimate the risk in a portfolio across asset classes, markets, currencies, securities and instruments. Risk is then expressed as a single numerical value, which takes into account the correlation between risk factors. The models use historical relationships, which provide reliable forecasts in markets that are not experiencing substantial changes in volatility and correlation. Estimates will be less reliable in periods marked by significant market movements. Regular testing of the models is performed to validate the model's ability to estimate risk. Reported risk measures are annualised. (NB)

	31 Dec 2019	Min 2019	Max 2019	Avg. 2019	31 Dec 2018	Min 2018	Max 2018	Avg. 2018
Expected volatility	6.4%	6.0%	8.0%	6.8%	7.1%	6.2%	9.1%	7.2%
Expected relative volatility, bsp.	7	6	15	11	10	2	11	8

For open-market operations, this risk is mainly associated with changes in the market value of Government of Utopia bonds, and the change in value of collateral received in liquidity injection transactions. For collateral, the risk of value loss is mitigated by using margins and haircuts that write-down their value and allow the effective amount lent to be lower than the collateral received. (NBG)

Assuming an immediate parallel increase (decrease) in interest rates by 50 basis points and 100 basis points and a correlation equal to 1 between the curves, and based on the duration of the aggregate foreign exchange reserves, the estimated loss (gain) for each scenario is as follows: (BOA)

Estimated effect on profit (loss) for the year ended December 31 (LC 000)	2019		2018	
	100 bp	50 bp	100 bp	50 bp
Increase	3,900	1,450	3,085	2,003
Decrease	(3,900)	(1,450)	(3,085)	(2,003)

The position of the Bank's sensitivity to interest rate by contractual repricing is presented in the following table, showing the carrying amounts of financial instruments classified by contractual repricing or maturity date. (BOA)

As at December 31, 2019 (LC 000)	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments	Total
		Up to 1 month	From 1 to 3 months	Over 3 months		
<b>Interest-earning assets</b>						
Cash and cash equivalents	682,674	–	16,172,435	–	3,474,473	20,329,582
Deposits with banks	–	–	–	49,738,005	–	49,738,005
Loans due from FIs	–	500,000	–	–	–	500,000
Securities at amortised cost	–	349,000	2,192,668	–	–	2,541,668
Securities at FVPL	–	1,082,152	–	–	–	1,082,152
Securities at FVOCI	–	–	1,700,000	4,630,735	–	6,330,735
IMF related assets	578,714	–	–	–	1,958,356	2,537,070
Advances to government	1,234,500	–	–	–	–	1,234,500
Derivatives	–	–	–	–	120,000	120,000
Loans to staff	–	–	–	31,882	–	31,882
Equity investments	–	–	–	–	8,100	8,100
Other assets	–	–	–	–	159,793	159,793
<b>Total</b>	<b>2,495,888</b>	<b>1,931,152</b>	<b>20,065,103</b>	<b>54,400,621</b>	<b>5,720,723</b>	<b>84,613,487</b>
<b>Interest-bearing liabilities</b>						
Currency in circulation	–	–	–	–	14,467,118	14,467,118
Balances of commercial banks	–	–	–	–	23,689,760	23,689,760
Due to financial institutions	–	–	–	–	8,219	8,219
Certificates of deposits from Bank of Utopia	–	–	5,000,944	–	–	5,000,944
Balances of government	–	–	–	–	7,555,118	7,555,118
IMF related liabilities	574,975	–	–	–	1,521,938	2,096,913
Due to foreign central banks	–	–	–	10,845,460	–	10,845,460
Derivatives	–	–	–	–	8,100	8,100
Other liabilities	–	–	–	–	303,340	303,340
<b>Total</b>	<b>574,975</b>	<b>–</b>	<b>5,000,944</b>	<b>10,845,460</b>	<b>47,553,593</b>	<b>63,974,973</b>
<b>Interest-bearing financial instruments gap</b>	<b>1,920,912</b>	<b>1,931,152</b>	<b>15,064,159</b>	<b>43,555,161</b>	<b>-41,832,870</b>	<b>20,638,514</b>
Off balance sheet items	-212,776	–	212,776	–	–	–
<b>Net interest-bearing financial instruments gap</b>	<b>1,708,136</b>	<b>1,931,152</b>	<b>15,276,935</b>	<b>43,555,161</b>	<b>-41,832,870</b>	<b>20,638,514</b>

As at December 31, 2018 (LC 000)	Floating rate instruments	Fixed rate instruments			Non-interest bearing instruments	Total
		Up to 1 month	From 1 to 3 months	Over 3 months		
<b>Interest-earning assets</b>						
Cash and cash equivalents	410,746	–	16,874,708	–	2,300,466	19,585,919
Deposits with banks	–	–	–	42,154,364	–	42,154,364
Loans due from FIs	–	550,000	–	–	–	550,000
Securities at amortised cost	–	450,000	2,000,751	2,100,000	–	4,550,751
Securities at FVPL	–	1,651,692	–	–	–	1,651,692
Securities at FVOCI	–	–	3,000,000	4,103,445	–	7,103,445
IMF related assets	531,092	–	–	–	1,805,949	2,337,041
Advances to government	1,100,000	–	–	–	–	1,100,000
Derivatives	–	–	–	–	84,000	84,000
Loans to staff	–	–	–	36,188	–	36,188
Equity investments	–	–	–	–	8,000	8,000
Other assets	–	–	–	–	314,169	314,169
<b>Total</b>	<b>2,041,839</b>	<b>2,651,692</b>	<b>21,875,459</b>	<b>48,393,997</b>	<b>4,512,583</b>	<b>79,475,570</b>
<b>Interest-bearing liabilities</b>						
Currency in circulation	–	–	–	–	13,928,764	13,928,764
Balances of commercial banks	–	–	–	–	27,969,888	27,969,888
Due to financial institutions	–	–	–	–	26,501	26,501
Certificates of deposits from Bank of Utopia	–	–	3,507,159	–	–	3,507,159
Balances of government	–	–	–	–	9,000,228	9,000,228
IMF related liabilities	530,229	–	–	–	1,403,495	1,933,723
Due to foreign central banks	–	–	–	–	8,000	8,000
Derivatives	–	–	–	3,872,190	–	3,872,190
Other liabilities	–	–	–	–	1,591,563	1,591,563
<b>Total</b>	<b>530,229</b>	<b>–</b>	<b>3,507,159</b>	<b>3,872,190</b>	<b>53,928,439</b>	<b>61,838,016</b>
<b>Interest-bearing financial instruments gap</b>	<b>1,511,610</b>	<b>2,651,692</b>	<b>18,368,300</b>	<b>44,521,807</b>	<b>-49,415,856</b>	<b>17,637,554</b>
Off balance sheet items	-611,398	–	611,398	–	–	–
<b>Net interest-bearing financial instruments gap</b>	<b>900,212</b>	<b>2,651,692</b>	<b>18,979,698</b>	<b>44,521,807</b>	<b>-49,415,856</b>	<b>17,637,554</b>

## ■ User Guidance

Market risk is defined by IFRS 7, Appendix A. For most central banks, the market risk with the potential for the highest profit or loss effect is currency risk – the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk: Many central banks are responsible for managing their country's foreign exchange reserves, with the associated currency exposure. Some central banks have reduced the risk, either through risk sharing with the treasury or by hedging (the latter not being as common). As this risk is usually significant, it is important to give informative disclosures. The most common to give is financial assets and liabilities by currency with related sensitivity to changes in currency rate.

Interest rate risk: Interest rate risk is relevant for most central banks based on the type of financial instruments most common for central banks. Interest rate risk is defined in IFRS 7. A.

Useful disclosures for a reader to understand the exposure to interest rate changes include the presentation of sensitivity to interest rate changes, portfolio duration, present value divided by discounted value (PV/DV), volatility measures, Value-at-Risk (VaR), etc. The disclosure of such measures should only be given if they are used within the central bank.

Disclosure requirements are given in IFRS 7.40-41 and further guidance is found in IG32-IG36. See also BOT

## Note 4.6 Liquidity risk

### DISCLOSURE – LIQUIDITY RISK

Liquidity risk considers the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The purpose of the management of liquidity risk is to ensure that the Bank fulfils all of the financial commitments that it has assumed. Accordingly, the Bank diversifies maturities and also establishes limits aiming to ensure that the securities purchased may be traded in the secondary market without causing abrupt changes in the prices of the assets. Due to these guidelines, even securities with longer maturities have immediate liquidity.

The table below summarizes the maturity profile of the Bank's financial liabilities in foreign currency based on contractual undiscounted repayment obligations. The financial assets in foreign currencies are presented in "less than 3 months" category on the basis that the Bank can realize them within the period not exceeding 3 months to meet the liquidity requirements. (NBG)

Considering the characteristics of a monetary authority, which include controlling the liquidity of the financial system, the Bank is not subject to the limitations resulting from a mismatch between assets and liabilities in local currency. (NBG)

As at December 31, 2019 (LC 000)	Up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Undefined maturity	Total
<b>FINANCIAL ASSETS</b>								
<b>Non-derivative assets</b>								
Cash and cash equivalents	19,876,658	452,924	–	–	–	–	–	20,329,582
Deposits with banks	–	–	49,738,005	–	–	–	–	49,738,005
Securities at amortised cost	349,000	2,192,668	–	–	–	–	–	2,541,668
Securities at FVOCI	–	1,700,000	–	2,300,000	2,330,735	–	–	6,330,735
Securities at FVPL	1,082,152	–	–	–	–	–	–	1,082,152
Monetary gold	–	–	–	–	–	–	108,000	108,000
Loans due from FIs	500,000	–	–	–	–	–	–	500,000
IMF related assets	578,714	–	–	–	–	–	1,958,356	2,537,070
Advances to government	–	–	–	1,234,500	–	–	–	1,234,500
Equity investment	–	–	–	–	–	–	8,100	8,100
Loans to staff	–	–	–	–	–	31,882	–	31,882
Other assets	159,793	–	–	–	–	–	–	159,793
<b>Total non-derivative assets</b>	<b>22,546,318</b>	<b>4,345,592</b>	<b>49,738,005</b>	<b>3,534,500</b>	<b>2,330,735</b>	<b>31,882</b>	<b>2,074,456</b>	<b>84,601,487</b>
<b>Derivative assets</b>								
Foreign exchange forwards	120,000	–	–	–	–	–	–	120,000
<b>TOTAL FINANCIAL ASSETS</b>	<b>22,666,318</b>	<b>4,345,592</b>	<b>49,738,005</b>	<b>3,534,500</b>	<b>2,330,735</b>	<b>31,882</b>	<b>2,074,456</b>	<b>84,721,487</b>
<b>FINANCIAL LIABILITIES</b>								
<b>Non-derivative liabilities</b>								
Currency in circulation	–	–	–	–	–	–	14,467,118	14,467,118
Due to financial institutions	23,666,760	23,000	–	–	–	–	–	23,689,760
Deposits from third parties	8,219	–	–	–	–	–	–	8,219
Certificates of deposits from Bank of Utopia	5,000,944	–	–	–	–	–	–	5,000,944
Balances of government	7,555,118	–	–	–	–	–	–	7,555,118
IMF related liabilities	579,892	–	–	–	–	–	1,517,022	2,096,913
Due to foreign central banks	–	6,737,860	–	4,107,600	–	–	–	10,845,460
Other liabilities	303,340	–	–	–	–	–	–	303,340
<b>Total non-derivative liabilities</b>	<b>37,114,273</b>	<b>6,760,860</b>	<b>–</b>	<b>4,107,600</b>	<b>–</b>	<b>–</b>	<b>15,984,139</b>	<b>63,966,873</b>
<b>Derivative liabilities</b>								
Interest rate futures	8,100	–	–	–	–	–	–	8,100
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>37,122,373</b>	<b>6,760,860</b>	<b>–</b>	<b>4,107,600</b>	<b>–</b>	<b>–</b>	<b>15,984,139</b>	<b>63,974,973</b>
<b>Asset–liability maturity mismatch as of December 31, 2019</b>	<b>(14,456,056)</b>	<b>(2,415,268)</b>	<b>49,738,005</b>	<b>(573,100)</b>	<b>2,330,735</b>	<b>31,882</b>	<b>(13,909,683)</b>	<b>20,746,514</b>

As at December 31, 2018 (LC 000)	Up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Undefined maturity	Total
<b>FINANCIAL ASSETS</b>								
<b>Non-derivative assets</b>								
Cash and cash equivalents	19,175,173	410,746	–	–	–	–	–	19,585,920
Deposits with banks	–	–	42,154,364	–	–	–	–	42,154,364
Securities at amortised cost	450,000	2,000,751	–	2,100,000	–	–	–	4,550,751
Securities at FVOCI	–	3,000,000	–	2,000,000	2,103,445	–	–	7,103,445
Securities at FVPL	1,651,692	–	–	–	–	–	–	1,651,692
Monetary gold	–	–	–	–	–	–	94,000	94,000
Loans due from FIs	550,000	–	–	–	–	–	–	550,000
IMF related assets	531,092	–	–	–	–	–	1,805,949	2,337,041
Advances to government	–	–	–	1,100,000	–	–	–	1,100,000
Equity investment	–	–	–	–	–	–	8,000	8,000
Loans to staff	–	–	–	–	–	36,188	–	36,188
Other assets	314,169	–	–	–	–	–	–	314,169
<b>Total non-derivative assets</b>	<b>22,672,127</b>	<b>5,411,497</b>	<b>42,154,364</b>	<b>5,200,000</b>	<b>2,103,445</b>	<b>36,188</b>	<b>1,907,949</b>	<b>79,485,570</b>
<b>Derivative assets</b>								
Foreign exchange forwards	84,000	–	–	–	–	–	–	84,000
<b>TOTAL FINANCIAL ASSETS</b>	<b>22,756,127</b>	<b>5,411,497</b>	<b>42,154,364</b>	<b>5,200,000</b>	<b>2,103,445</b>	<b>36,188</b>	<b>1,907,949</b>	<b>79,569,570</b>
<b>FINANCIAL LIABILITIES</b>								
<b>Non-derivative liabilities</b>								
Currency in circulation	–	–	–	–	–	–	13,928,764	13,928,764
Due to financial institutions	27,950,888	19,000	–	–	–	–	–	27,969,888
Deposits from third parties	26,501	–	–	–	–	–	–	26,501
Certificates of deposits from Bank of Utopia	3,507,159	–	–	–	–	–	–	3,507,159
Balances of government	9,000,228	–	–	–	–	–	–	9,000,228
IMF related liabilities	534,762	–	–	–	–	–	1,398,961	1,933,723
Due to foreign central banks	–	–	–	3,872,190	–	–	–	3,872,190
Other liabilities	1,591,563	–	–	–	–	–	–	1,591,563
<b>Total non-derivative liabilities</b>	<b>42,611,101</b>	<b>19,000</b>	<b>–</b>	<b>3,872,190</b>	<b>–</b>	<b>–</b>	<b>15,327,725</b>	<b>61,830,016</b>
<b>Derivative liabilities</b>								
Interest rate futures	8,000	–	–	–	–	–	–	8,000
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>42,619,101</b>	<b>19,000</b>	<b>–</b>	<b>3,872,190</b>	<b>–</b>	<b>–</b>	<b>15,327,725</b>	<b>61,838,016</b>
<b>Asset-liability maturity mismatch as of December 31, 2018</b>	<b>(19,862,975)</b>	<b>5,392,497</b>	<b>42,154,364</b>	<b>1,327,810</b>	<b>2,103,445</b>	<b>36,188</b>	<b>(13,419,776)</b>	<b>17,731,554</b>

## ■ User Guidance

Liquidity risk is defined (IFRS 7. A) as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is presented rather similarly across central banks, with a short qualitative text explaining the exposure to liquidity risk; which in most cases is described as low. Some central banks differentiate between risk exposure to the foreign exchange reserves and the monetary policy portfolio (or similar) as the risk can be different; especially since most central banks have no liquidity risk in their own currency as this can be created if needed. The risk is usually quantified in a maturity analysis, however the periods used may differ as the standard gives several options

The treatment of derivatives, both asset and liabilities need care. The timing of the principal cash flows should be used to determine the classification.

## Note 4.7 Operational risk

### ■ Business Context

Central banks are exposed to significant operational risk. As central banks maintain critical financial system infrastructure, the inclusion of disclosures on operational risk is recommended. Transparency on the central bank's operational risk management will further

enhance its credibility as a systemic backstop in the financial sector. Financial institutions and international investors will be able to better assess the central bank's preparedness in case of occurrence of operational events, whether large or small.

### DISCLOSURE – OPERATIONAL RISK

The Bank is exposed to non-financial operational risks. Operational risk originates from inadequate or failed internal processes, people, systems or external events. The Bank is exposed to the following sub-categories of operational risks: legal, information technology, human resources, security (physical and information), project, third-party, business continuity and settlement risks. Operational risks may generate financial loss, damage to reputation or failure in achieving the bank's business objectives. Hence, the Bank has developed a centralized risk management system in order to identify and mitigate the impact of operational risks and strengthen its internal control system. (NBG)

### ■ User Guidance

Operational risk is not a financial risk and is not specifically required to be disclosed by IFRS 7. However, operational risk in a financial institution is commonly managed and reported internally in a formal framework similar to financial risks.

The disclosure on operational / non-financial risk differs across central banks. As this is not a formal requirement by IFRS, many central banks do not disclose any information in the notes to the financial statements (it may be included in other parts of the annual report, e.g. management discussion etc.). That said, given that a central bank forms part of a country's systemic infrastructure, it is recommended that central banks should include disclosures on how it manages these exposures.



## NOTE 5

# International Monetary Fund related assets and liabilities

### ■ Business Context

The International Monetary Fund (IMF) is an international organization with 189 member countries. It was established to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of

payments requirements. The IMF receives its resources from its member countries and quota subscriptions are a central source of IMF's financial resources. Each country's subscription, or quota, is determined broadly on the basis of the economic size of the country and taking into account quotas of similar countries.

### ACCOUNTING POLICY – INTERNATIONAL MONETARY FUND RELATED ASSETS AND LIABILITIES

Member states may 'borrow' from the IMF under various facilities.

Special Drawing Rights (SDRs) which are the Bank of Utopia's holdings of SDRs are recognised as an asset in the balance sheet, under Claims on the International Monetary Fund. The value of SDRs is calculated on the basis of a currency basket comprising the US Dollar, the Euro, Japanese Yen, Pound Sterling and Renminbi. The equivalent value of SDR allocations by the IMF shows Bank of Utopia's total allocations of SDRs and is recognised as a liability, under Liabilities to the IMF. Bank of Utopia's holdings of SDRs and the equivalent value of SDRs are measured at amortised cost. (NB)

The outstanding balance with the IMF is recognized in the balance sheet, under Claims on the IMF and Liabilities to the IMF, respectively. The IMF quota is classified as a strategic equity investment measured at FVOCI and the LC liability to the IMF are measured at amortized cost. (NB)

Exchange rate revaluation gains and losses arising on revaluation of IMF assets and liabilities are recognized in the statement of comprehensive income.

All other charges and interest pertaining to balances with the IMF are recorded immediately in the statement of comprehensive income. (MMA)

### DISCLOSURE – INTERNATIONAL MONETARY FUND RELATED ASSETS AND LIABILITIES

In accordance with the Bank of Utopia's Act, the Bank acts as fiscal agent of the Government in its dealings with International Financial Institutions, transact with the International Financial Institutions and undertake financial agency work for the Government. In compliance with the Act, the accounts with International Monetary Fund, which records all transactions with the IMF, have been included in these financial statements. (MMA)

The IMF has created an international reserve asset called the Special Drawing Right (SDR). All rights in, and commitments to the IMF are denominated in SDRs. The value of the SDR is calculated on the basis of a currency basket comprising the US dollar, euro, Chinese renminbi, Japanese yen and pound sterling. The currency weights are adjusted each year in accordance with changes in bilateral foreign exchange rates. At December 31, 2019, SDR 1.0 was equal to LC 3.7226 (3.6916 at December 31, 2018).

IMF claims on the Bank have precedence over claims from other creditors. The IMF has never realised a loss on loans under their general borrowing agreements. Since all claims are against the IMF, Utopia has no credit exposure to third countries in connection with these loans.

The various rights, commitments, claims and liabilities are described below. (NB)

As at December 31 (LC 000)	2019	2018
<b>Financial assets</b>		
IMF subscription (quota) (5.1)	1,958,356	1,805,949
Holdings of special drawing rights (SDRs) (5.2)	578,714	531,092
<b>Total claims on the IMF</b>	<b>2,537,070</b>	<b>2,337,041</b>
<b>Financial liabilities</b>		
IMF A/C I (5.3)	4,896	4,515
IMF A/C II (5.3)	20	19
Securities account (5.4)	1,517,022	1,398,961
Loans from the IMF - exogenous shock facility (5.5.a)	–	–
Loans from the IMF - extended fund facility (5.5.b)	–	–
<b>Total local currency liabilities to the IMF</b>	<b>1,521,938</b>	<b>1,403,495</b>
SDR allocations (5.6)	574,975	530,229
<b>Liabilities to the IMF</b>	<b>2,096,913</b>	<b>1,933,724</b>
<b>Net positions with the IMF</b>	<b>440,157</b>	<b>403,318</b>

## ■ User Guidance

Financial assets, financial liabilities and loan commitments come under IFRS 9.

Loans and other facilities from the IMF and its trusts may be made either to the central bank or directly to the government, depending upon the terms and purposes. It is important to identify the true counterparty. Commonly the loan may be received by the central bank and then passed on to the government in local currency. The loan is denominated in SDR, so it is important to ensure that any agreement with the government clearly states this fact and which body (central bank or government bears the foreign exchange risk). The terms will affect the accounting treatment of any revaluation gain or loss.

The IMF requires promissory notes to be issued as collateral for any loans. These take the same form as the promissory notes issued in relation to the quota and will be held by the central bank as custodian. It is important to distinguish between the two sets of promissory notes

in the central bank's records. The promissory notes for the quota will be reflected in the balance sheet, but those for the loans will not.

Members generally present their position in the General Resources Account (GRA) in one of two ways. The GRA position includes the IMF Subscription Account, IMF no. 1 Account, IMF no. 2 Account and IMF Securities Account.

### a) Gross Method of Presenting GRA Position

Some members present their positions in the GRA by reporting their quota subscriptions as assets in the Foreign Currency and Claims section of the balance sheet, and including the Fund's holdings of the currencies in the Securities Account, No. 1 Account, and the No. 2 Account in the Liabilities section of the balance sheet. The balance of the Fund's holdings of currency in these accounts are officially denominated in local currency, but economically is in SDRs as the

central bank is obliged to maintain its SDR value. Central banks differ in their treatment of these as regards classifying them as domestic or foreign currency liabilities.

Under this method of reporting, neither the member's reserve tranche position in the Fund nor its use of GRA credit is disclosed on the face of the balance sheet, but both are disclosed in the notes to the financial statements.

#### **b) Net Method of Presenting GRA Position**

Many members present their position in the GRA on a net asset and net liability basis. Under this method, a member's reserve tranche position is reported as an asset in the Foreign Currency and Claims section of the balance sheet, and the member's use of GRA credit is disclosed in the Foreign Currency Liabilities to International Financial Institutions section. The balance of the Fund's holdings of currency in the No. 2 Account is officially denominated in local currency, but economically is in SDRs as the central bank is obliged to maintain its SDR value.

Most central banks report a net liability position with the IMF.

See also Aide Mémoire Accounting for Fund Transactions August 1, 2016

## Note 5.1 IMF quota subscription

### DISCLOSURE – IMF QUOTA SUBSCRIPTION

A member's subscription to IMF resources is equal to its quota and determines the maximum amount of financial resources the member is obliged to provide to the IMF. A member must pay its subscription in full. A country must pay 25% of its quota in widely accepted foreign currencies or SDRs, and the remaining 75% in its own currency.

The quota defines a member's voting power in IMF decisions. Each IMF member has IMF basic votes plus one additional vote for each SDR 0.1 million of quota. IMF basic votes are fixed at 5.502 of the total votes. As at December 31, 2019, the Republic of Utopia has 1.0 vote representing 0.1% of total votes. The amount of financing a member can obtain from the IMF (access limits) is also based on its quota. Under the Stand-By and Extended Arrangements, for instance, a member can currently borrow up to 145% of its quota annually and 435% cumulatively. Access may be higher in exceptional circumstances and to meet specific difficulties.

The Republic of Utopia has been a member of the IMF since 1961. The Bank of Utopia acts as both fiscal agent and the depository for the IMF. As fiscal agent, the Bank is authorized to carry out all operations and transactions with IMF. As depository, the Bank maintains IMF's currency holdings and ensures that the assets and liabilities of IMF membership are properly reflected in its accounts and presented in its financial statements. The quota of Utopia is its membership subscription which is granted mainly by the issue of promissory notes in favour of the IMF and partly by foreign currency payments by the Government of Utopia. (MMA)

### ■ User Guidance

If the central bank acts as the fiscal agent, the assets (quota subscription) and liabilities (e.g. the securities account) related to the member's participation in the SDR Department are normally recorded on the balance sheet of the central bank, as fiscal agent, unless stipulated otherwise by the member's legislation.

Because of the unique nature of the IMF quota, which does not perfectly align with any IFRS standard, the approach varies between central banks. Central banks are effectively applying IAS 8 to be compliant with IFRS and local laws. The most common approach is to classify

the quota similarly to a strategic equity instrument measured at FVOCI as shown in this document, with foreign exchange revaluations gains and losses following IAS 21. Using this approach, foreign exchange revaluation gains or losses are recognized in profit or loss (before profit distribution) with the price fair value adjustments of the quota recognized in the fair value reserve included in OCI. Some central banks choose to classify the quota as a debt instrument measured at Amortized Cost.

## Note 5.2 SDR holdings

### DISCLOSURE – SDR HOLDINGS

Holding of SDRs is potentially a claim on freely usable currencies of IMF members, in that holders of SDRs can exchange their currencies for SDRs. The SDR's value as a reserve asset derives from the commitments of members to hold and accept SDRs and to honour various obligations connected with the operation of the SDR system. The IMF ensures that the SDR's claim on freely usable currencies is being honoured in two ways: by designating IMF members with a strong external position to purchase SDRs from members with weak external positions, and through the arrangement of voluntary exchanges between participating members in a managed market. The amount included in the table above represents the total holdings of SDRs by the Authority as at the respective reporting dates. (MMA)

The SDR holdings bear interest, which is determined on a weekly basis. The interest rate at December 31, 2019 is 1.103% (2018: 0.743%). (BOA)

### ■ User Guidance

If the IMF has provided any special SDR allocations to the central bank, it is to be disclosed separately under the SDR allocations along with the general SDR allocation.

See also the NBG's note "Special Drawing Rights Holdings with International Monetary Fund"

## Note 5.3 IMF No. 1 and No. 2 accounts

### DISCLOSURE – IMF NO. 1 AND NO. 2 ACCOUNTS

The No. 1 account is used for IMF transactions and operations, including subscription payments, purchases, repurchases, repayment of borrowing, and sales in Utopian Local Currency.

The No. 2 account is used for the IMF's administrative expenditures and receipts (for example, receipts from sales of IMF publications) in the member's currency and within its territory. Small out-of-pocket expenses, such as telecommunication charges, may be debited to this account on a quarterly basis. (MMA)

### ■ User Guidance

If gross method is opted for, these accounts should be included under IMF related liabilities.

## Note 5.4 IMF securities account

### DISCLOSURE – IMF SECURITIES ACCOUNT

The security held in custody in respect of the IMF Quota and as collateral of the IMF granted facilities comprise LC 1,517 million in respect of the IMF Quota and LC 0.0 held as collateral for the IMF granted facilities (totally LC 1,517 million). The security was issued by the Government of Utopia in 1961 in settlement of the IMF Quota. The security used as collateral covers the total nominal value of the IMF granted facilities to Utopia: to the Bank and to the Government. The nominal value of the security is changed annually according to the revaluation and at the time of facility receipt from the IMF General Resources Account by the facility amount. Utopia currently has no such facility. (NBG)

### ■ User Guidance

Security issued for the settlement of quota and securities used as collateral for IMF facilities are disclosed in this note. Where IMF facilities are split between the central bank and the government, the disclosure will depend on the relationship between the Bank and the government. Ideally this is set out in a Memorandum of Understanding, but this is not always the case. It can be difficult to agree the position.

The model note above includes some wording that is not applicable to Utopia, but has been included as an example.

## Note 5.5 IMF granted facilities

### DISCLOSURE – IMF GRANTED FACILITIES

#### *a) Exogenous Shock Facility*

The IMF provides the Exogenous Shock Facility (ESF) to its member countries which are affected by an event that has a significant negative impact on the economy and that is beyond the control of the Government.

The first disbursement amounting to SDR 0.0 under the ESF was received on January 01, 2018 and a second disbursement amounting to SDR 0.0 on January 01, 2019 upon completion of IMF review. No interest was charged on ESF loan during the year 2018 and 2019. (MMA)

#### *b) Extended Fund Facility*

The Extended Fund Facility (EFF) is a three-year facility provided by the IMF to support the Balance of Payments and Government's economic reform agenda. The IMF approved the EFF of SDR 0.0 (approximately LC 0.0) in January 01, 2018. This amount is equivalent to 0.0 percent of the country's current quota with the IMF.

So far, five tranches have been disbursed and the last tranche has been disbursed in January 01, 2019. Hence, a total of LC 0.0 has been received so far by Utopia on account of EFF.

The remaining amount is expected to be disbursed in two more tranches over a period of one year. The interest rate applicable on the EFF comprise of the basic rate of charge, which is equivalent to the SDR interest rate (currently stands at 0.0 percent per annum) plus 0 basis points. (CBSL)

### ■ User Guidance

This note has been included even though it does not apply to Utopia.

The IMF provides various lending instruments which are tailored to different types of balance of payments needs as well as to address specific economic circumstances.

For each facility granted, the central bank should disclose the details of the facility to provide the user of the financial statements a sound overview of the obligations, cash flows and relevant charges.

Low-income countries may borrow on concessional terms through facilities available under the Poverty Reduction and Growth Trust (PRGT), currently at a zero rate of interest. Historically, for emerging and advanced market economies in crises, the bulk of IMF assistance has been provided through Stand-By Arrangements (SBAs) to address short-term or potential balance of payments problems. The Standby Credit Facility (SCF) serves a similar purpose for low-income

countries. The Extended Fund Facility (EFF) and the corresponding Extended Credit Facility (ECF) for low-income countries are the Fund's main tools for medium-term support to countries facing protracted balance of payments problems.

To help prevent or mitigate crises and boost market confidence during periods of heightened risks, members with already strong policies can use the Flexible Credit Line (FCL) or the Precautionary and Liquidity Line (PLL) to address short term liquidity needs.

The Rapid Financing Instrument (RFI) and the corresponding Rapid Credit Facility (RCF) for low-income countries provide rapid assistance to countries with urgent balance of payments needs, including from commodity price shocks, natural disasters, global shocks and domestic fragilities.

See also <https://www.imf.org/en/About/Factsheets/IMF-Lending>

## Note 5.6 IMF SDR allocations

### DISCLOSURE – IMF SDR ALLOCATIONS

The SDR allocation is an unsecured, interest bearing distribution of SDRs by the IMF through general and special allocations. The general allocation is made by the IMF according to the Articles of Agreement to all participants in its SDR Department in proportion to countries' quotas in the IMF.

On 10 August 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one-time allocation of SDRs entered into force to boost global liquidity. According to the amendment dated 9 September 2009, the special allocation was made to the IMF members, which includes Utopia. Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Bank treats the allocation as a foreign currency liability to the IMF.

Utopia, as a member country of the IMF and recipient of the allocations, is obliged to pay to the IMF an amount equal to its net cumulative allocation and any other amounts that may be due and payable because of the membership termination or liquidation of the IMF's SDR Department.

The annual interest rate range on the SDR allocation in 2019 and 2018 is 0.764%-1.121% and 0.244%-0.747%, respectively. (NBG)

### ■ User Guidance

All members of the IMF have been allocated some SDRs, in accordance with their quota. These SDRs have been created by the IMF to increase the pool of foreign exchange assets. These assets exist in a separate department of the IMF and the counterpart to the liability is a claim on the other central banks. Central banks may sell the SDRs they receive for other currencies, but the liability remains. The liability incurs interest at the same rate that is paid on the asset. Interest is paid net of the amounts earned, and several central banks only record the net interest payment if any. Consequently, central banks who have not sold any of their allocation, record no net income or expense.



## NOTE 6

# Monetary gold

### ■ Business Context

Central banks may acquire, retain or undertake operations with monetary gold. Not all gold can be classified as monetary gold. Monetary gold is gold held by a monetary authority principally as an element of its foreign exchange reserves (also sometimes called international reserves). To qualify as monetary gold, the gold must meet the International Monetary Fund's (IMF's) definition of monetary gold and the monetary authority must designate the gold as part of its foreign reserve portfolio. Monetary gold includes allocated gold bullion and unallocated gold accounts with non-residents that give title to claim the delivery of gold. Gold bullion can take the form of coins, ingots, or bars with a purity of at least 995 parts per 1000,

including such gold held in allocated gold accounts. For further information, please also refer to the "Balance of Payments and International Investment Position" manual published by the International Monetary Fund; 2009; 6th ed. Previously published as: Balance of Payments manual. ISBN 978-1-58906-812-4.

Given the above-mentioned characteristics of the monetary gold, IFRS does not provide a specific treatment for the accounting of monetary gold. Therefore, for monetary gold, the central bank can use the requirement in IAS 8 to adopt the nearest equivalent accounting treatment [IAS 8.10-12].

### ACCOUNTING POLICY – MONETARY GOLD

Monetary gold is gold to which the Bank as a monetary authority has title to and is held as a reserve asset. Gold includes gold bullion as well as unallocated gold accounts with non-residents that give title to claim the delivery of gold. Gold bullion takes the form of coins, ingots, or bars with a purity of at least 995 parts per 1,000, including such gold held in allocated gold accounts.

The management of the Bank understands that IFRS does not provide a specific treatment for the accounting of monetary gold. Therefore, pursuant to the requirements set by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" paragraphs 10-12, the Bank determined that the policies established for the accounting of financial instruments and for the disclosure of relevant information, should also be applied to gold as the Bank regards it as a monetary asset. (NBM)

Gold was initially recognized at cost in United States dollars (USD) converted to LC on the date of acquisition, being the fair value of the consideration provided including acquisition charges associated with the investment. After initial recognition, the gold is re-measured at fair value.

Gains and losses arising from changes in fair value, referring to price changes are recognized in the fair value reserve within other comprehensive income, until the gold is sold, when they are recognized as realized gains or losses in profit or loss.

The fair value of monetary gold is expressed in USD, converted at the middle exchange rate as published by the Bank at the reporting date, and is measured at the last bid price for one ounce of gold (Oz) at the reporting date quoted on Reuters.

Foreign exchange gains and losses from conversion of prices of gold from USD to LC are recognized in accordance with IAS 21 and are included in the Statement of Profit or Loss.

## DISCLOSURE – MONETARY GOLD

The Bank of Utopia holds monetary gold on deposit with the Bank for International Settlements in Switzerland, but which is physically held at the Bank of England. Fair value of the monetary gold as at December 31, 2019 amounts to LC 108 million, representing 31,500 ounces of gold at LC 3,085 per ounce (2018: LC 94 million representing 31,500 ounces of gold at LC 2,984 per ounce). Movements in fair value of monetary gold can be analysed as follows: (CBBH)

(LC 000)	2019	2018
<b>As at January 1</b>	<b>94,000</b>	<b>84,700</b>
Purchases during the year	9,000	5,000
Fair value reserves for monetary gold:		
- changes in prices of gold	1,500	1,300
- foreign exchange gains/(losses) from conversion USD/LC	3,500	3,000
<b>As at December 31</b>	<b>108,000</b>	<b>94,000</b>

## User Guidance

For monetary gold, the central bank can use the requirement in IAS 8 to adopt the nearest equivalent accounting treatment [IAS 8.10-12].

IFRS 9 specifies that gold is a commodity, hence not a financial instrument, but the standard does not distinguish between monetary and non-monetary gold. Although monetary gold is highly liquid, there is no contractual right to receive cash or another financial asset.

On the other hand, monetary gold shares several characteristics with a financial asset. For example, monetary gold is:

- Readily convertible into cash;
- Quoted globally in US dollars;
- Easily traded with willing counterparties (durable, divisible and portable);
- Accepted as a form of payment by some central banks; and
- A store of wealth.

Furthermore, monetary gold can be held:

- For its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets; and
- For an indeterminate period, because it provides confidence in the monetary authority's financial strength and ability to carry out its activities.

There are two wide-spread practices that central banks classify monetary gold:

1. at FVOCI like a debt financial asset denominated in foreign currency (it is considered as more appropriate) (NBM; CBBH; MMA; RBM);
2. at FVPL like a financial asset (BCB; CBC; CBK; NBU).

When the first option is applied, information about foreign exchange gains/losses which is the component of fair value revaluation [IFRS 9.B5.7.2-B5.7.4, IAS 21.52b] may be material and should be presented as a separate line in the Note about changes in the amount of accumulated other comprehensive income (Gold Revaluation Reserve in Equity).

## NOTE 7

# Equity investments in and deposits from International Financial Institutions

### ■ Business Context

It is common for some central banks to have equity investment in certain financial organizations or institutions such as BIS, International Bank for Reconstruction and Development (IBRD), regional development or trade banks, SWIFT, Fondo Latino Americano de Reservas (FLAR), etc. Typically, these central banks designate these equity investments as strategic investment measured at FVOCI on the basis of their business model assessment (e.g. not held for trading due to their strategic nature) and SPPI test.

Those countries who are members of the International Monetary Fund can join the IBRD. Contingent on the central bank's membership in the IBRD, the central

bank may also hold memberships in the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). In each of these cases, member countries buy shares in the institution, thereby helping to build the institution's capital and borrowing power. This arrangement is known as capital subscriptions. (A Guide to the World Bank, third edition)

Since the central bank is the depository of the government, the designated depository for these agencies is also the central bank. Hence, the relevant accounts are shown in the balance sheet of the central banks.

### ACCOUNTING POLICY – EQUITY INVESTMENTS IN, AND DEPOSITS FROM INTERNATIONAL FINANCIAL INSTITUTIONS

The Bank's strategic investments in other entities are classified as equity investments at FVOCI with the fair value movement and FX revaluations recognized in other comprehensive income.

All the deposits from other institutions are measured and classified at AC.

### DISCLOSURE – EQUITY INVESTMENTS IN, AND DEPOSITS FROM INTERNATIONAL FINANCIAL INSTITUTIONS

#### *a. Equity instruments at FVOCI*

##### **BIS shares**

The Bank holds 20 shares in the Bank for International Settlements (BIS) at a value of LC 138,000 as at December 31, 2019 (20 and LC 136,000 at December 31, 2018). The BIS is a specialized international financial institution owned by 60 central banks around the globe to serve them in the pursuit of monetary and financial stability, to foster international cooperation in those areas and to act as a bank for central banks. The shares held in the BIS are held as part of the Bank's function as a central bank and are thus long-standing in nature. Shares are only transferable with the prior consent of the BIS. The Bank has no intention of selling the shares. (BOC)

### IBRD shares

The Bank holds 30 shares in the International Bank for Reconstruction and Development (IBRD) at a value of 700,000 as at as at December 31, 2019 (30 and LC 700,000 at December 31, 2018). The IBRD is a global development cooperative owned by 189 member countries. As the largest development bank in the world, it supports the World Bank Group's mission by providing loans, guarantees, risk management products, and advisory services to middle-income and creditworthy low-income countries, as well as by coordinating responses to regional and global challenges.

### SWIFT shares

The Bank holds 2 shares in the Society for Worldwide Interbank Financial Telecommunication (SWIFT) at a value of LC 2,000 as at December 31, 2019 (2 and LC 2,000 at December 31, 2018). SWIFT is a cooperative society owned by its member financial institutions.

### Regional Development Bank shares

The investment in the Regional Development Bank is in respect of equity shares. At yearend, the Bank held 2000 shares at a total value LC 7,260,000 (2000 shares and total value of LC 7,162,000 at December 31, 2018).

The Bank's strategic equity investments were not disposed of during 2019 and there were no transfers of any accumulated gains or losses within equity relating to it. (BOU)

Equity instruments at FVOCI as at December 31 (LC 000)	2019	2018
Regional Development Bank	7,260	7,162
International Bank for Reconstruction and Development	700	700
Bank for International Settlements	138	136
SWIFT shares	2	2
<b>Total equity instruments at FVOCI</b>	<b>8,100</b>	<b>8,000</b>

### *b. Deposits from International financial institutions*

The Bank of Utopia is designated as the depository of the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD) for the Republic of Utopia. The balances represent the amounts collected on behalf of these institutions for various purposes at the respective reporting dates. (MMA)

Foreign currency deposits as at December 31 (LC 000)	2019	2018
International Development Association	519	519
International Bank for Reconstruction and Development	7,035	25,317
Asian Development Bank	108	108
<b>Total liabilities</b>	<b>7,662</b>	<b>25,944</b>

## ■ User Guidance

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In the note disclosure central banks provide information on the type of investment and the respective benefits for the central bank. If it is the case, they also disclose the dividends received from these equities. [IAS 7.8 (h), 11A]

Subscriptions can be by issuance of promissory notes as well, which are non-negotiable and non-interest bearing.

The note presentation should provide the user of the financial statements with a clear understanding of the breakdown of the subscriptions of the organizations for which the subscriptions are held as well as identifying the holding currency of these deposits.

Due to the close relationship, we have included other aspects of the positions with international bodies in the same note. This includes liabilities. This presentation enables readers to easily see the overall position in respect of these bodies.

See also BOC's Foreign Liabilities note and BOU's Other Foreign Liabilities note

The objective of [IFRS 12] is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities the effects of those interests on its financial position, financial performance and cash flows. [IFRS 12.1]

Where the disclosures required by [IFRS 12], together with the disclosures required by other IFRSs, do not meet the above objective, an entity is required to disclose whatever additional information is necessary to meet the objective. [IFRS 12.3]

See also SARB and CBBH

## NOTE 8

# Inventories

### ■ Business Context

Central banks do account for inventories depending on the significance of the amounts in the financial statements. Some central banks directly expense materials that could be considered as inventories. Others account for such materials as inventories. Central bank inventories are largely two-fold. There is a category of supplies that is used for administrative purposes such as stationery items. The other category would be for currency and currency related materials. Administrative supply inventories are typically not material and would not require separate disclosure on the balance sheet and only minimal disclosure in the notes to the statements, if at all.

Currency and currency related materials typically are a material inventory item held by a central bank due to the strategic nature of currency to the operations of the central bank and the economy as a whole. Central banks hold a stock of new notes pending issue, typically several months' usage. Central banks owning printing

plants would also stock materials such as special paper (substrates), ink, metals and chemicals.

In order to manage order levels and lead time, central banks not owning printing plants would order large quantities of currency that would be held both within own premises and at the printer's premises and some quantities could be in transit at the same time. Based on this premise, large quantity of stocks are accounted for on the balance sheet for both new notes and coins. These costs are either i) charged to the profit or loss account at the time of issuing them in circulation, ii) they are amortised over an estimated useful life of the currency, or iii) charged to profit or loss upon receipt of the goods. Under the third approach, while the physical notes are maintained in inventory, no inventory is maintained for financial reporting purposes.

There will normally also be a note to the income statement showing the cost of banknotes as charged in the year.

### ACCOUNTING POLICY – INVENTORIES

The cost of inventory includes cost of the production of notes and coins by printers/minters, freight and clearing charges. These are recognised at initial costs in the financial statements. At the point of issuing the new currency, the first-in, first-out (FIFO) basis is used to determine the value that is to be charged to the profit or loss.

### ACCOUNTING JUDGEMENTS AND ESTIMATES – INVENTORIES

Judgement is required when determining which costs are to form part of the cost of purchased inventories or cost of conversion of inventories.

## DISCLOSURE – INVENTORIES

The Bank of Utopia holds inventories in form of unissued currency notes. The Bank purchases currency notes from external printers/minters.

Inventories as at December 31 (LC 000)	2019	2018
Unissued notes for circulation	25,000	57,000
Unissued coins	10,119	27,000
Commemorative coin sets	6,200	8,116
<b>Total inventories</b>	<b>41,319</b>	<b>92,116</b>

### ■ User Guidance

Some central banks provide detailed information of their currency inventories. Others would only mention in a statement about their holding of such stocks.

Those that expense the cost of the goods upon receipt, while retaining a physical inventory of notes, would not be required to include a financial disclosure regarding the stock retained, however, they should clearly disclose the accounting policy on how note and coin production costs are recognized.

For those central banks that maintain an inventory of materials (for financial reporting purposes), all payments for currency orders are made to prepaid expenses or work-in-process accounts including all incidental costs such as freight and clearing charges until such time the currency production is finished or product is delivered. For central banks that own printing/minting facilities, inventories would comprise, in addition to finished notes, the raw materials utilized in the production of the notes and coins and would recognize and disclose cost inputs for production of currency.

The finished currency is transferred to a stocking (inventory) system where appropriate issues are made from and charges to profit or loss are made using the preferred method. Inventory is then decreased when the notes are issued or set up as an asset and amortized. Both a First-in, First-out (FIFO) and weighted average methodology are considered acceptable.

If the central bank has adopted the cost amortization method, the statement on 'accounting judgements and estimates' should also indicate that judgement is required when estimating the useful lives of different denominations of notes and coins. The expected useful lives would be disclosed in the accounting policy.

## NOTE 9

# Property, plant and equipment, intangibles, and investment properties

### ■ Business Context

Central banks require buildings, secure facilities, and equipment to fulfil their mandates. While these are necessary to support the central bank's ability to operate, these investments are secondary to the main purpose of the central bank which is to achieve monetary policy and financial stability objectives.

IFRS does require disclosure of such items but central banks can decide when and if they are material to the user of the financial statements. The issuers of the

financial statements must apply a balanced approach. The main purpose of the financial statements is to provide the user with information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions. (IASB conceptual framework 1.2). For a central bank whose balance sheet is 50 percent foreign assets, 40 percent domestic assets and 2 percent Property, Plant and Equipment, the detail and transparency included in the disclosures should be reasonably proportionate.

### ACCOUNTING POLICY – PROPERTY, PLANT AND EQUIPMENT, INTANGIBLES, AND INVESTMENT PROPERTIES

#### Initial recognition

Property, plant and equipment, intangible assets and investment properties are initially recognized at cost.

#### Carrying Value

Property, plant and equipment, intangibles, and investment property assets (aside from land) have finite useful lives and are measured at cost less accumulated amortization, depreciation, and impairment losses.

#### Amortization and Depreciation

Amortization and depreciation are calculated using the *straight-line* method and is applied over the estimated useful lives of the assets when the asset is available for use, ranging from three to seventy-five years. Land is not depreciated.

Buildings and facilities	over the estimated future lives which range <i>from ten to seventy-five years</i> .
Plant within buildings	over periods ranging <i>from five to twenty years</i>
IT equipment	over periods ranging <i>from three to seven years</i>
Intangibles	over periods ranging <i>from three to fifteen years</i>
Other equipment	over periods ranging <i>from three to twenty years</i>

The estimated useful life and the depreciation and amortization methods are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis.



### ***Impairment***

Assets that are subject to depreciation are reviewed at each reporting date to assess whether there is any indication that an asset may be impaired. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value (less costs to sell) and value in use.

### ***Subsequent valuation***

Professional valuations of the Bank's properties, excluding investment properties, are carried out every 5 years with subsequent additions included at cost and provisions made for depreciation. Any surplus arising on revaluation is recognized directly in a Revaluation Reserve within Equity, except to the extent the surplus reverses a previous revaluation deficit on the same asset recognized in profit or loss in which case the credit is to the income statement.

### ***Impairment of non-financial assets.***

Non-financial assets are reviewed annually for impairment and whenever events or changes in circumstances indicate that the carrying amount exceeds their recoverable amount.

## **ACCOUNTING JUDGEMENTS AND ESTIMATES – PROPERTY, PLANT AND EQUIPMENT, INTANGIBLES, AND INVESTMENT PROPERTIES**

Judgement is required when determining:

- the costs that are attributable to the asset;
- for assets where valuation is applied, the fair value of the properties;
- the appropriate useful life over which the assets should be depreciated or amortized;
- the depreciation method; and,
- whether the existing assets are subject to impairment.

## DISCLOSURE – PROPERTY, PLANT AND EQUIPMENT, INTANGIBLES, AND INVESTMENT PROPERTIES

The Bank's investment in its property, plant and equipment, its intangible assets, and investment properties at yearend were:

(LC 000)	Land, buildings and installations	Furniture and Office Equipment	Vehicles	Computers & Accessories	Total Property and Equipment	Computer software	Total Intangible Assets	Investment properties	Total
<b>Cost</b>									
At January 1, 2018	79,147	63,029	15,981	64,318	222,476	45,613	45,613	20,000	288,089
Additions	50	6,260	6,492	16,410	29,212	12,806	12,806	–	42,018
Transfers	–	–	–	–	–	–	–	–	–
Disposal	(885)	(2,224)	(772)	(5,117)	(8,998)	(336)	(336)	–	(9,334)
At December 31, 2018	78,313	67,066	21,701	75,611	242,690	58,084	58,084	20,000	320,774
Additions	15,500	15,293	13,675	15,284	59,752	7,013	7,013	–	66,765
Transfers	–	–	–	–	–	–	–	–	–
Disposal	(2,335)	(2,311)	–	(774)	(5,420)	(300)	(300)	–	(5,720)
At December 31, 2019	91,477	80,048	35,376	90,121	297,021	64,797	64,797	20,000	381,818
<b>Depreciation/Amortization</b>									
At January 1, 2018	32,110	50,814	11,451	50,426	144,801	45,218	45,218	4,000	194,018
Charge for year	2,535	2,575	1,822	4,326	11,258	866	866	1,000	13,124
Disposals	(2,335)	(1,065)	–	–	(3,401)	–	–	–	(3,401)
At December 31, 2018	32,310	52,324	13,273	54,751	152,658	46,084	46,084	5,000	203,741
Charge for the year	2,235	5,762	2,158	5,230	15,385	3,713	3,713	1,000	20,098
Disposal	–	(1,311)	–	(4,275)	(5,586)	–	–	–	(5,586)
At December 31, 2019	34,545	56,775	15,431	55,706	162,457	49,797	49,797	6,000	218,254
<b>Net carrying value</b>									
At December 31, 2018	46,003	14,742	8,428	20,860	90,032	12,000	12,000	15,000	117,032
At December 31, 2019	56,932	23,273	19,945	34,415	134,565	15,000	15,000	14,000	163,565

## Note 9.1 Property, plant and equipment

### ■ Business Context

A typical central bank's major Property, Plant and Equipment (PPE) would include buildings and facilities; currency processing, storage and transporting equipment; and technological equipment.

The buildings would largely be used for administrative purposes on activities relating to central banking such as its head office and its branches in other regions. Specialized facilities would include secure facilities for printing, holding and processing currency as well as vaults for storing currency.

Plant and equipment held would be in form of currency processing machines. Central banks may, amongst its fleet, have security vehicles for distributing currency within the country. They would also have significant amounts of computer equipment used to host critical banking, national payments or securities settlements systems as well as hardware to support the central bank's own internal operations. Indeed, they also have furniture, passenger automobiles, etc. though these are typically quite immaterial.

### DISCLOSURE – PROPERTY PLANT AND EQUIPMENT

Property, Plant and Equipment are considered as fixed/tangible assets of the Bank if they are:

- Held by the Bank for use in the supply of service or for administrative purposes; and,
- Are expected to be used for more than three years.

Where applicable, figures for freehold land and buildings reflect independent professional valuations performed in accordance with the Utopian Appraisal and Valuation legislation. (BOE)

### ■ User Guidance

For the purpose of these financial statements, Property, Plant and Equipment is considered under IAS 16 and the following topics should be covered:

- Initial recognition where the criteria on whether an item is to be recognized as a PPE is considered;
- Subsequent costs largely relating to treatment of additional expenditures impacting on the PPE;
- Determination of gains and losses;
- Depreciation method, including useful life, residual value;
- Impairment of PPE; and,
- Subsequent valuation.

Land and buildings are separable assets and are accounted for separately, as land is usually not depreciated. Buildings are carried at cost or at revalued amounts. If applied, valuations are done by professional appraisers and usually at an interval of 5 years. Computer equipment is accounted for separately from the software that is deployed on the hardware. Software is treated as an intangible asset. Although some central banks revalue other fixed assets such as furniture and equipment largely to manage expected useful lives and residual values, it is a very uncommon practice, nevertheless.

If the Bank has a de minimis lower limit for capitalization, this should be disclosed as should other material criteria.

## Note 9.2 Intangible assets

### ■ Business Context

Central banks acquire and develop their own intangible assets used to manage their daily operations. The most common of such intangible asset is software and it is accounted for under IAS 38. IAS 38 provides guidance on how to account for software that is both purchased and developed. Purchased software comprises applications developed by major vendors. Some software is developed internally to meet specific user needs or where commercial-off-the-shelf software is not available. Central banks typically own and

manage mission critical systems for national payments Real Time Gross Settlement systems for high value payments, Automated Clearing House applications for low value payments and Central Securities Depository for transferring securities amongst participants who are largely banks which transact both on their own portfolio and also on behalf of their clients. Central banks may also host software that would allow banks and all other financial institutions to report directly to the central bank such as Bank Supervision Applications.

### DISCLOSURE – INTANGIBLE ASSETS

Intangible assets are identifiable non-monetary assets without physical substance that present future economic benefits and are controlled by the Bank. The Bank's intangible assets consist of computer software that has been internally developed or externally acquired.

Costs that are directly associated with the internal development of identifiable software are recognized as intangible assets if, in management's best estimate, the asset can technically be completed and will provide a future economic benefit to the Bank. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. (BOC)

### ■ User Guidance

For the purpose of the financial statements, software as an intangible asset is considered under IAS 38 and 36 for impairment. The following topics should be further covered:

- Initial recognition where the criteria on whether an item is to be recognized as an intangible asset is determined;
- Amortization;
- Impairment.

Computer software is the most common if not the only intangible asset held by central banks due to the nature of their core central banking business. Some of the software is procured as commercial-off-the-shelf software and configured to meet the central bank's needs or customized further to address deficiencies. The cost

of this would be the initial perpetual license paid to use the applications plus all taxes, installation and testing costs charged by suppliers. Annual maintenance fees are expensed. Upgrades are typically expensed unless they significantly enhance the functionality of the software.

For internally developed software, the major expenditure would relate to foundational applications (database, security, etc.) which are integrated into the application as well as staff or external contractor costs engaged in the software development and implementation. Overheads may warrant allocation on significant software development projects. Care is usually exercised to allocate personnel time worked on the project obtained through timesheets. Training costs and business process reengineering are not capitalizable.

It is only the software that would bring economic benefits to the central bank that is capitalized and the useful life would be estimated. The upgrade policy of software providers would sometimes inform the useful life of software.

Software is assessed for impairment annually.

The central bank's intangible assets are software used for internal purposes. Central banks do not hold intangible assets that can be referred to in an active market for fair valuation. (IAS 38.75 and IAS 38.78)

## Note 9.3 Investment properties

### ■ Business Context

Central banks do not normally invest in property but sometimes have surplus properties that are rented out. They may also find themselves owning properties for commercial banks that are under resolution. These may qualify as investment properties under IAS40.

A central bank's property is held to be used in its day-to-day operational and administrative activities affecting the central bank. Most central banks do not hold property with the sole purpose of letting out. However, as a central bank grows, it may acquire larger properties to meet future growth in activities. This may create excess capacity which may be available to be rented out. In this regard, the property ought to be accounted for under IAS 40 Investment Properties.

A central bank may also acquire properties from banks in resolution pledged as collateral. The central

bank may also collect the properties left as collateral from the loans to its employees who have defaulted. Such buildings will not be used in the central bank's operations. As such they should be classified as investment properties unless they have been specifically classified as for disposal under IFRS 5.

Under IAS 40 Investment Properties may be accounted for at cost or valuation. Most central banks adopt a cost basis and depreciates the building using a straight-line method. The useful lives are assessed individually for each building depending on the circumstances and the condition of the building.

Central banks would adopt the route of taking all revaluation gains to Other Comprehensive Income to avoid distributing unearned profits.

### DISCLOSURE – INVESTMENT PROPERTIES

Investment properties (including property under construction for such purposes) are properties held to earn rental income and/or for capital appreciation but not for sale in the normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment properties are measured initially at cost, including transaction costs. (NBG)

### ■ User Guidance

For the purpose of these financial statements, Investment Properties are considered under IAS 40 and the following topics should be further covered:

- Initial Recognition;
- Measurement subsequent to initial recognition: Fair Value model or Cost model.

Properties such as land or buildings or part of a building that are wholly rented out or held for capital appreciation are investment properties. The main distinction of these category of assets with the other tangible assets owned and occupied by the central bank

(e.g. PPE) is the fact that investment properties generate cash flows largely independently of the other assets held by the central bank.

Where only part of a building is rented out and the remainder is occupied by the central bank, the portion rented out will be regarded as a separate property if it can be physically separated from other parts of the building.

If the portion of the building occupied by the central bank is insignificant then the whole building is an investment property.

# NOTE 10

## Currency in circulation

### ■ Business Context

The exclusive right of issuing the local currency banknotes is commonly vested with the central bank. Currency in circulation represents those banknotes and coins that have been produced and issued for use in the economy. Notes and coins held in the central bank's vault, including notes and coins returned to the central bank by banks, are not considered part of currency in circulation. The notes are non-interest-bearing liabilities and are due on demand.

The central bank should provide data about the quantity of currency that is in circulation as of the reporting

date including the comparative year. It is also important to disclose the value of those banknotes and coins represented in the local currency.

As IFRS does not apply specifically to this operation, here the policy takes into account the best practices, considering the relevance and reliability required in IAS 8.10 and this should be disclosed as required in IAS 1 considering the nature of the central bank operations.

The risks of these financial liabilities must be considered in the notes related to IFRS 7.

### ACCOUNTING POLICY – CURRENCY IN CIRCULATION

Notes and coins in circulation are recognized at face value when they are put into circulation and derecognized when they are withdrawn from circulation. Notes and coins are put into circulation at the time they are removed from a central bank depot and transferred to private banks or other customers. (NB)

### DISCLOSURE – CURRENCY IN CIRCULATION

The currency in circulation represents the balance of banknotes and coins in circulation, held by the general public and financial institutions, recorded at the face value. (BCB)

The liability for the notes and coins issued is the net liability after offsetting notes and coins held by the Bank.

The following banknotes and coins were in circulation as at December 31:

	2019		2018	
	Quantity	LC (000)	Quantity	LC (000)
<b>Notes</b>				
LC 1	59,302	59,302	53,676	53,676
LC 2	1,916	3,832	1,916	3,832
LC 5	33,467	167,333	31,470	157,351
LC 10	16,998	169,980	17,444	174,440
LC 20	10,864	217,280	12,354	247,080
LC 50	9,036	451,800	9,775	488,743
LC 100	9,314	931,350	9,859	985,876
LC 500	8,035	4,017,463	8,364	4,182,192
LC1000	8,431	8,431,208	7,619	7,619,121
<b>Total notes</b>		<b>14,449,548</b>		<b>13,912,311</b>
<b>Coins</b>		<b>17,570</b>		<b>16,453</b>
<b>Total</b>		<b>14,467,118</b>		<b>13,928,764</b>

## ■ *User Guidance*

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The banknotes and coins in circulation are normally presented as part of the liabilities and are measured at their nominal values. The liability for currency in circulation represents a claim on the central bank in favour of the holder. It is good practice for the central bank to disclose both the quantity of each denomination in circulation and its value in domestic currency.

Some central banks, although rare, withdraw notes and coins from the circulation and it is no longer legal tender. In such cases, please refer the Appendix IV.

An alternative presentation adopted by the Central Bank of Chile presents currency in circulation as part of 'monetary base'. While not a common presentation style, it does align the balance sheet structure more closely with the policy mandate of a typical central bank and may be worth consideration in certain central banks.



# NOTE 11

## Other assets and liabilities

### ■ Business Context

Central banks might have other items, on both the assets and liabilities side, which in quantitative terms might be immaterial, but for which it is still necessary to disclose information. These items vary across central banks and may include, unless presented as separate line-items, sundry creditors and committed liquidity

facility fees received in advance, numismatics, inventory, printing and minting costs, loans to staff, provisions for claims and litigations, amounts due to suppliers, artwork and other heritage items, net defined benefit liability and assets, etc. (SARB, BOA, BOC & NBG)

### ACCOUNTING POLICY – OTHER ASSETS AND LIABILITIES

Other assets and liabilities are measured and classified at amortized cost. For loans to employees, the Bank assesses ECLs based on historic loss ratios, adjusted for forward-looking macroeconomic information. (BOA)

### DISCLOSURE – SIGNIFICANT ACCOUNTING POLICIES

Other assets and liabilities include items presented in the following table.

As at December 31 (LC 000)	2019	2018
<b>Other assets in foreign currency:</b>		
Other debtors	59,521	44,125
<b>Other assets in national currency:</b>		
Other debtors	100,273	270,044
Commemorative notes and coins	16,672	4,437
Loans to staff	31,882	36,188
Other non financial assets	155,604	126,142
<b>Total other assets</b>	<b>363,951</b>	<b>480,936</b>
<b>Other liabilities in foreign currency:</b>		
Amount due to suppliers	31,086	15,655
Other liabilities	40,000	15,000
<b>Other liabilities in national currency:</b>		
Amounts due to suppliers	131,012	95,123
Other liabilities	139,688	1,523,859
<b>Total other liabilities</b>	<b>341,786</b>	<b>1,649,637</b>

Central banks should disclose in this note a representative, but not necessarily exhaustive, list of the other lesser material financial or non-financial assets and liabilities they have in the balance sheet. This may include, but not limited to, non-monetary gold such as commemorative gold coins, staff loans, amounts due, deferred revenue, prepaid amounts, etc.

Central banks may decide to provide the data on the staff loans under “other assets” group or disclose it as a separate item. To whom the central bank can grant a loan and the loan requirement (interest rate, term, collateral etc.) may depend upon the central bank’s law or other regulations.

Loans to key management personnel do require disclosure. Key management personnel are those persons having authority and responsibility for planning, directing and controlling directly or indirectly the activities of the central bank [IAS 24.9]. Central Banks vary in their structures and terminology. The Governance arrangements should be explained elsewhere in the annual report. Usually, a central bank’s key management personnel are the Governor, Deputy Governors, Non-Executive Directors and Directors. The information with regard to their loan exposures is disclosed under the Related Parties’ note, together with the other benefits they have because of their role. [IAS 37 and IAS 24]

Notes should also include additional information on expenses reported under “Other” or “Miscellaneous”. Based on the materiality of the item, the central bank can choose which is better in providing more detail for the public. The “Other” or “Miscellaneous” component of assets and liabilities should generally not exceed 10% of the total. But excessive detail should be avoided unless some items are meaningful.

## NOTE 12

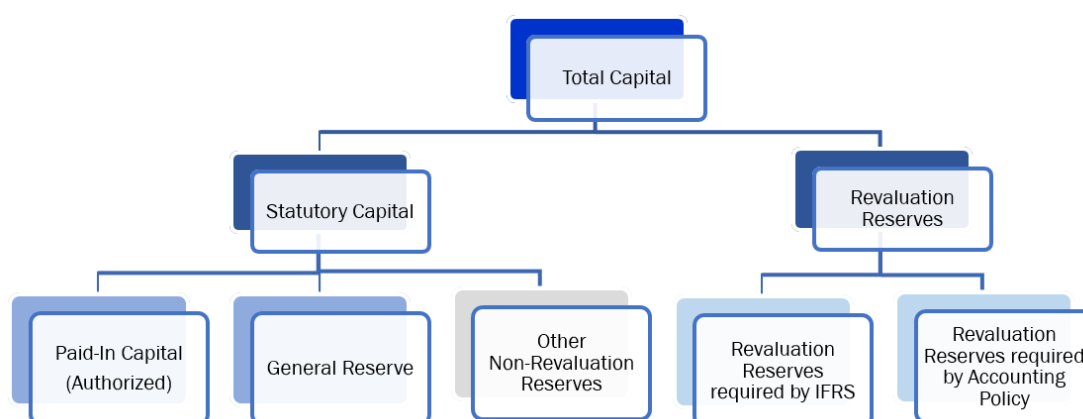
# Capital, general and other reserves

### ■ Business Context

Central banks use a variety of different terminology to describe the equity of the institution. The terminology used here is intended to be generic and the central bank should use terms indicative of its regional preference and organic law. The preferred presentation in the balance sheet and in the notes is to segregate ‘statutory capital’ (herein defined as capital excluding revaluation reserves) and ‘revaluation reserves’. Statutory capital often includes paid-in capital (which may be equal to or less than its authorized capital), general reserve, plus other reserves as allowed by the organic law created through the retention of non-revaluation profits. Revaluation reserves include unrealized revaluations of assets and liabilities as required under IFRS as well as those revaluation reserves dictated by the organization’s accounting/distribution policies and law (most typically foreign exchange and monetary gold revaluations). The graphic below depicts a typical segregation.

The segregation of the different components of the central bank’s capital should be disclosed in the notes to the statements. A clear segregation of realized capital from revaluation reserves provides the reader with a perspective of the financial strength of the central bank and its ability to undertake longer term policy actions. The purpose and use of the various reserves should be described.

The central bank may wish to disclose its profit distribution mechanism in this section if it is dependent on the level of capital retained.



## ACCOUNTING POLICY – RESERVES

The property revaluation reserve represents accumulated net gains on properties that have been revalued. Deficits are offset against previous gains arising on the same property. Where properties that have been revalued subsequent to acquisition are later liquidated, the amounts contained in the revaluation reserve relating to the property sold are transferred to general reserves.

Unrealized foreign currency exchange rate revaluation gains and losses recorded in the Bank's profit or loss are transferred to the foreign exchange revaluation reserve. Gains (losses) that subsequently realized are added to (deducted from) amounts to be distributed.

Any special reserves created in accordance with the law will be released when the purposes for which they were created are no longer required.

## DISCLOSURE – RESERVES

The Bank's annual profits are transferred to the Bank's different capital accounts and reserves as set out in the Bank of Utopia's Act. Profits in excess of those allocated to the Bank's capital are transferred to the State Budget within 2 months after acceptance of the audited financial statements.

For the year ended December 31 (LC 000)	2019	2018
<b>Statutory capital (12.1)</b>		
Authorized and paid in capital	800,000	800,000
General reserve (12.1; 20)	3,585,242	3,098,932
Special reserves	–	–
<b>Revaluation reserves (12.2)</b>		
Revaluation of debt instruments at FVOCI	556,500	554,843
- Revaluation without ECL	555,696	554,673
- ECL (note 4.3)	804	170
Foreign currency exchange rate revaluations	16,132,386	13,551,032
Monetary gold revaluation	10,000	8,000
Revaluation of equity instruments at FVOCI	500	100
Remeasurements of defined benefit plans	600	300
Revaluation reserve on PPE and intangible assets		
<b>Total equity</b>	<b>21,085,228</b>	<b>18,013,207</b>

## User Guidance

The central bank's disclosures regarding its total capital serves a number of purposes:

- It provides financial sector actors, including international investors, a perspective as the central bank's ability to backstop the financial sector in times of stress;
- It provides transparency to the user of the financial statements regarding foreign exchange revaluation resulting from pseudo-fiscal role of foreign exchange management activities; and
- It provides a clear separation between realized capital versus revaluation related capital.

## Note 12.1 Statutory capital

### DISCLOSURE – STATUTORY CAPITAL

The Bank's statutory capital includes its paid-up capital, general reserve and special reserve.

#### **a) Authorized and Paid-In Capital**

The Bank of Utopia Act provides for authorized capital of LC 800,000 of which LC 800,000 thousand has been paid in (LC 800,000 thousand prior year). The capital of the Bank shall be subscribed and held solely by the Government of Utopia. The Bank's authorized and paid-in capital may be increased from time to time as provided for in the Bank of Utopia Act.

#### **b) General Reserve**

In accordance with the Bank of Utopia Act, the General Reserve should make up 7.5% percent of the reserve money, which comprises the local currency in circulation together with the correspondent accounts of commercial banks in local currency and other third party obligations, excluding amounts owed to the Government of Utopia and other supranational institutions.

The General Reserve is established by allocations from the realized profit for the year, which comprises net profit for the year in accordance with IFRS excluding net foreign currency exchange rate and other revaluation gains or losses. The General Reserve may only be used to offset losses of the Bank. With the specific objective of maintaining stability of the financial system, as well as fostering sustainable economic growth in the country. If, as a result of losses, the general reserve is depleted to below 2 percent of reserve money, the Government of Utopia is obligated to recapitalize the Bank to its legal threshold of 4 percent of reserve money. Recapitalization was not required during the year.

#### **c) Special Reserves**

Special reserves are the results of transactions with owners that do not meet a definition of income or expenses and classified as contributions from owners. The Bank did not have any special reserves during the period.

### ■ User Guidance

There are different methods of General Reserve calculation. The objective and procedures for its utilization are stated in the legislation. They should be described in the notes.

One major area of difference is whether gains and losses on assets/liabilities at FVPL are considered realized or not and are included in the revaluation reserves.

Best in class mechanisms are automatic based on the audited financial statements. In cases where the law does not dictate automatic allocations, distributions,

and recapitalizations, the mechanism for authorizing such transfers may be included.

Some central bank laws allow for the creation of supplementary realized reserves, in addition to a general reserve. In such cases, the note disclosures should describe the purpose of each reserve, how the reserve is funded and how the reserve is subsequently depleted or unwound. The NBU's law, for example, allows for the retention of realized profits in a special reserve to fund capital acquisitions. In CBBH's case, the special reserve comprises a capital injection of grant related monies. A

special reserve results from transactions with owners that do not meet a definition of income or expenses and classified as contributions from owners [CF.4.70].

The treatment of the profits for the year and profit distributions vary between central banks, depending largely on the law. In some central banks, the profit distribution is sufficiently definite to qualify as a liability at the year end. In other countries, the distribution is recognized in the following year, as is the case for most entities reporting under IFRS. Some show it as a separate item, pending its distribution or allocation as a reserve. Others include it in general reserves.

Please also see the section on Foreign Currency  
Exchange Rate Reserves

## Note 12.2 Revaluation reserves

### ■ Business Context

Revaluation reserves are accumulated gains (losses) from revaluation or remeasurement of items (assets or liabilities) that are either recognised as Statement of Other Comprehensive Income or in the Statement of Profit or Loss (examples of such items included somewhere are foreign currency revaluations, monetary gold, FVPL etc.).

For most central banks, distributions to the government are based on its realized profits and realized equity, unrealized gains should not be distributable (ideally this should be specified in legislation). Unlike a typical for-profit corporation, distribution of unrealized revaluation gains effectively monetizes the amount in the local economy. For revaluations accounted for through OCI, this does not represent a difficulty as the organization simply needs to comply with IFRS. For

revaluations included in profit, as required by IFRS, the difficulty is in determining the amount to be segregated from distributions. Central banks apply different accounting policies and formulas in segregating the amounts. The IMF does have preferred practices in how such amounts should be calculated, however, due to the complexity of these policies and calculations, these are not included here in detail.

In addition, central banks should have a policy for releasing revaluation reserves that are subsequently realized. For some items IFRS covers the subsequent treatment of items recognized in reserves, with examples such as OCI and on revaluations of premises. For foreign currency revaluation it is necessary to establish a regime outside IFRS.

### DISCLOSURE – REVALUATION RESERVES

Revaluation reserves include accumulated gains (losses) from revaluation or remeasurement of items (assets or liabilities) recognised as other comprehensive income according to IFRS plus the accumulation of revaluation gains (losses) included in profit. Revaluation reserves include:

Items that are or may be subsequently reclassified to profit or loss:

- Revaluation of debt instruments at FVOCI
- Monetary gold revaluations

Items that will never be reclassified to profit or loss:

- Revaluation of equity instruments designated as FVOCI
- Defined benefit plan remeasurements
- Revaluation reserve on property, plant and equipment and Intangible asset

#### **a) Revaluation reserve of financial debt instruments at FVOCI**

This reserve is maintained for gains and losses arising from changes in fair value of debt financial assets classified as FVOCI category for which the gains or losses are recognised through OCI. When these financial instruments are sold or otherwise disposed of, the cumulative gain or loss previously recognised in OCI is reclassified to profit.

### ***b) Foreign currency exchange rate revaluation reserve***

The Bank recognizes all foreign currency exchange rate gains and losses in its Statement of Profit or Loss. By virtue of the Bank's foreign reserve management mandate and for monetary policy and financial stability purposes, the Bank maintains open currency positions at the reporting dates.

In accordance with the Law, unrealized foreign exchange gains and losses are not attributed to distributable profit. Exchange rate revaluations are considered unrealized until such time the underlying position is either liquidated or discharged. The amount recognized as realized is determined by comparing the average rate at which the asset or liability is liquidated to the weighted average historical cost of acquisition. Realized exchange rate revaluation gains and losses are transferred to profit or loss and may be distributed.

If the reserve account becomes negative (a debit balance), an equivalent amount of the General Reserve is reallocated to a Special Reserve retained in statutory capital to cover the negative position until such time it becomes positive, at which point the allocation to the Special Reserve is reversed.

### ***c) Monetary gold revaluation reserve***

The Bank's monetary gold is classified as a financial instrument revalued on each reporting date based on the London Gold Market quoted in USD. The asset's gains and losses arising from changes in the USD market price are recognized in OCI and allocated to this reserve until such time as the underlying position is liquidated. Revaluations resulting from changes in the USD relative to LC are accounted for within the foreign currency exchange rate revaluations account (above). When the gold is sold or otherwise disposed of, the cumulative gain or loss previously recognised in OCI for that portion of the gold is reclassified to profit or loss.

### ***d) Revaluation reserve of equity instruments designated as FVOCI***

The Bank has made an irrevocable election designating its investments in the BIS, SWIFT, IBRD, RDB as strategic equity investments classified as FVOCI. Gains and losses resulting from changes in the share price or foreign exchange rate revaluations are reflected in OCI and accumulated in this reserve. Amounts presented in OCI shall not be subsequently transferred to profit, but rather, if any portion or all of the investment is liquidated, the relative amount of the reserve will be transferred directly to the General Reserve.

### ***e) Defined benefit plan remeasurement reserve***

Re-measurements of the Bank's defined benefit plans comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what occurred), as well as the effects of changes in actuarial assumptions. Annual re-measurements of the benefit plans are recognized through OCI and carried forward in this reserve. Benefit plan re-measurements are not subsequently recognized in profit or loss.

### ***f) Property, plant and equipment and Intangible asset revaluation reserve***

The Bank periodically revalues specific assets based on an independent appraisal of the market value of the item. Revaluations are included in OCI in the year recognized and maintained as a separate reserve until such time the asset is derecognized. When an item of Property, Plant and Equipment, Intangible or Investment Property asset is sold or otherwise disposed of, the respective cumulative revaluation reserve is transferred directly to the General Reserve.



## ■ User Guidance

Information about the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified upon derecognition from accumulated other comprehensive income to profit or loss for the period are shown separately.

Amounts reclassified from OCI to profit may be presented in the Statement of Profit or Loss (or profit or loss in the Statement of Comprehensive Income) as a separate line item [IFRS 7.20 (a) (viii)] [IFRS 9.B5.7.1A]. (NBM)

Sometimes information about FX gains/losses which is the component of fair value revaluation [IFRS 9.B5.7.2—B5.7.4] may be material and can be presented as a separate line in the Note about changes in the amount of accumulated other comprehensive income (Revaluation Reserve in Equity). See also IFRS 9.4.1.4 and IFRS 9.B5.7.1 as well as BOE

Central bank laws often include specific clauses for addressing negative revaluation reserves. Those that have asymmetrical coverage typically result in a commingling of realized reserves or capital injections with accumulated unrealized revaluations. If the legal framework allows, reallocations of realized equity or capital injections should be retained in separate accounts from the unrealized reserve amounts.

If the information about changes in Revaluation reserves on monetary gold is presented in the respective note it may be not necessary to include the table in this Note.

A central bank may have different ways how to deal with Revaluation surplus on PPE and/or intangible asset:

- to leave in Equity section as a Revaluation reserve;
- to transfer directly to Retained earnings when respective PPE or intangible asset is derecognized;
- to transfer parts of an accumulated revaluation surplus during the period as the asset is used by an entity. See also IAS 16.39 to 16.41 and RBM

Regarding presentation of pension plan remeasurements, please refer IAS 19.122 and see the BCB's and BOC's disclosures.

## NOTE 13

# Interest income and expense

### ■ *Business Context*

The main source of income and of expense for a central bank is interest revenue. Interest revenue will come from both the securities in the foreign reserves portfolio, and on domestic assets, such as monetary policy assets and loans to government. Interest expense

will arise on deposits and monetary policy liabilities, including compulsory reserves if remunerated. Interest may also be paid on foreign currency liabilities, where these exist.

### ACCOUNTING POLICY– INTEREST INCOME AND EXPENSE

#### *a) Interest and similar income and expense*

For all financial instruments that are measured at amortized cost, or fair value through other comprehensive income, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial instrument or a shorter period, where appropriate, to net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts.

The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

#### *b) Interest income recognition base*

The original effective interest rate is applied to the gross carrying amount (carrying amount without reduction by expected credit loss allowance) of a financial asset for which:

- credit risk has not increased significantly since initial recognition (stage 1);
- credit risk has increased significantly since initial recognition, but which are not credit-impaired (stage 2).

For financial assets which are credit-impaired, the original effective interest rate is applied to the net carrying amount (carrying amount after reduction by expected credit loss allowance). (NBG)

Expense arising on financial assets because of a negative effective interest rate is not presented as interest revenue but included with interest as an expense.

## DISCLOSURE – INTEREST INCOME AND EXPENSE

Interest income from international reserves relates to interest earned from investments in foreign currency securities, money market operations and foreign deposits. While interest income from monetary policy operations relates to interest earned from investments in Utopian Government Securities, but also from open market operations.

Negative interest from deposits and current accounts with banks represent charges arising from negative yielding deposits and accounts placed with foreign banks. (BOA)

As at December 31 (LC 000)	2019	2018
<b>Interest income from international reserves</b>		
Cash and cash equivalents	1,933,574	1,759,158
Debt instruments at FVPL	65,000	57,000
Investments measured at FVOCI	288,377	322,355
<b>Interest income from domestic assets</b>		
Due from resident financial institutions	–	–
Due from government	12,552	7,224
<b>Total interest income</b>	<b>2,299,503</b>	<b>2,145,736</b>
<b>Interest expenses from foreign currency items</b>		
Due to non-resident financial institutions	(519,706)	(539,127)
Due to International Monetary Fund	–	–
Negative interest from deposits and current accounts with banks	–	–
<b>Interest expense from monetary policy operations</b>		
Debt securities issued	(250,000)	(260,000)
Due to resident financial institutions	–	–
<b>Total interest expense</b>	<b>(769,706)</b>	<b>(799,127)</b>
<b>NET INTEREST INCOME</b>	<b>1,529,797</b>	<b>1,346,609</b>

### ■ User Guidance

Disclosures on interest income and expense shall include information per

- financial instruments classification according to IFRS 9;
- nature of the instrument and portfolio (foreign reserves or domestic currency).

According to IFRS 7.20, central banks shall disclose interest income and expense either in the statement of comprehensive income or in the notes:

(a) net gains or net losses on:

Financial assets or financial liabilities measured at FVPL. For financial liabilities designated as at FVPL, separately the amount of gain or loss recognized in OCI and the amount recognized in profit or loss.

Financial liabilities measured at AC.

Financial assets measured at AC.

Investments in equity instruments designated at FVOCI in accordance with paragraph 5.7.5 of IFRS 9.

Financial assets measured at FVOCI in accordance with paragraph 4.1.2A of IFRS 9, showing separately the amount of gain or loss recognised in OCI during the period and the amount reclassified upon derecognition from accumulated OCI to profit or loss for the period; and

(b) Total interest revenue and total interest expense (calculated using the effective interest method) for financial assets that are measured at AC or that are measured at FVOCI in accordance with paragraph 4.1.2A of IFRS 9 (showing these amounts separately).

Optional information to be provided regarding the levels of interest rates earned per instrument or interest rates on monetary policy instruments either in the Interest revenue/expense note or in the related note.

Central banks may also experience negative interest rates both from the assets (e.g. negative yields for financial instruments) and liabilities side (e.g. negative remuneration for obligatory reserve requirements). According to Interpretations Committee Agenda Decision in January 2015, interest resulting from a negative effective interest rate on a financial asset does not meet the definition of interest revenue.

Consequently, the expense arising on a financial asset because of a negative effective interest rate should not be presented as interest revenue, but in an appropriate expense classification. Same logic applies for the liabilities side. (Interpretations Committee agenda decision of January 2015)

See the statement from the Interpretations Committee—Income and expenses arising on financial instruments with a negative yield—presentation in the statement of comprehensive income (IAS 39 Financial Instruments: Recognition and Measurement and IAS 1 Presentation of Financial Statements)—January 2015

## NOTE 14

# Fee and commission income and expense

### ■ Business Context

Central banks are encouraged to charge fees for services, especially for those services that could be provided through other commercial enterprises. Providing financial institutions with services free of charge can act as a subsidy, the cost of which is borne ultimately by the public. For example, charging institutions a fee for returning excessive amounts of fit banknotes can

encourage rudimentary sorting at their branches and reduce transportation, sorting and redistribution costs. In setting service charges, the central bank must ensure that the fees do not encourage undesirable behaviours and should be wary of any unintended consequences (e.g. heightened risk taking).

### ACCOUNTING POLICY – FEE AND COMMISSION INCOME AND EXPENSE

The Bank earns fee and commission income from a diverse range of services it provides to its counterparties. Fee and commission income include cash operations fees and fund transfer fees, which are recognized as the services are provided. Fee and commission expense consist of cash operation, settlement fees and fees paid to the external manager, which are recognized as expense as the services are rendered. (NBG)

### DISCLOSURE – FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

For the year ended December 31 (LC 000)	2019	2018
<b>Fee and commission income:</b>		
Funds transfer	5,865	3,888
Other	2,975	1,652
<b>Total fee and commission income</b>	<b>8,840</b>	<b>5,540</b>
<b>Fee and commission expense:</b>		
Fees paid to external manager	8,200	5,200
Custodian and settlement fees	6,150	3,650
Cash operations	2,402	2,078
<b>Total fee and commission expense</b>	<b>16,752</b>	<b>10,928</b>

Besides their main sources of revenue and expense, that is interest, central banks can also collect or pay fees and commissions related with their functions. These may include, but are not limited to, exchange bureau fees, payment and securities systems (e.g. Central Securities Depository (CSD), RTGS) fees, credit bureau fees, custodial and other central bank service fees e.g. supervisory fees, settlement fees paid to third parties etc. While the amounts are not likely to be financially material to the income statement, their disclosure does provide the reader with context as to the services by the central bank as part of their mandate to financial institutions and amounts recovered for these services. However, the general rules on materiality described elsewhere should be applied and the extent of the disclosure should not be excessive.

## NOTE 15

# Employee benefits

### ■ Business Context

For most central banks, employee costs often represent the largest component of its operational costs; only after interest expense in those jurisdictions heavily involved in liquidity sterilization operations. The main staff costs for central banks include wages and bonuses, social security costs and contributions for pension funds. Other staff costs may include paid vacations or sick leave, staff development costs, canteen subsidies, financial aid, uniform costs, etc.

Employee benefits refer to all forms of consideration given by an entity in exchange for services rendered by employees or for the termination of employment, as described below:

**Short-term employee benefits** – Are benefits expected to settle wholly within 12 months of when the service was rendered. Refers to salary, most of bonuses, annual leave, health benefits, dental care and statutory benefits. The liability and related expense are recognized in the reporting period in which they occur and are measured on an undiscounted basis.

**Post-employment benefits** – Are benefits payable after the completion of employment (pension plans and other benefits). Refers to the Pension Plan; or a Staff Provident association, life insurance and eligible health and dental benefits, and any long-service benefit program. The net asset or liability recognized is composed of the present value of the defined-benefit obligation less the fair value of plan assets, when applicable. The defined-benefit obligation is calculated by discounting estimated future cash flows using an appropriate interest rate. The plan assets of funded benefit plans are measured at their fair value at the end of the reporting period. The expense recognized in net income for the reporting period consists of current service costs, past service costs, net interest on the net defined-benefit liability/asset, gains or losses arising on settlement

(if applicable) and administrative costs. Net interest is calculated by applying the discount rate to the net defined-benefit liability/asset. Re-measurements are recognized immediately in other comprehensive income in the reporting period in which they occur and are accumulated in Equity. Re-measurements comprise actuarial gains and losses, the return on plan assets and the effect of the asset ceiling (if applicable). They exclude amounts included in net interest on the net defined-benefit liability/asset. Past service costs are recognized at the earlier of when the plan amendment or curtailment occurs, or when the central bank recognizes related restructuring costs or termination benefits.

**Long-term employee benefits** include the long-term health care or disability program of the central bank. The liability recognized is the present value of the defined benefit obligation, calculated by discounting estimated future cash flows using an appropriate interest rate. The expense recognized in net income for the reporting period consists of current service costs, interest costs, re-measurement gains and losses, and past service costs. The current service costs and the benefit obligations of the plan are actuarially determined on an event-driven accounting basis.

**Termination benefits** – Are benefits provided in exchange for termination. The liability and related expense are recognized in net income at the earlier of when the central bank can no longer withdraw the offer of the termination benefit or when the central bank recognizes any related restructuring costs.

## ACCOUNTING POLICY – EMPLOYEE BENEFITS

Category (BOC)	Description	Measurement
<b>Short-term employee benefits</b>	Benefits expected to settle wholly within 12 months of when the service was rendered. Refers to salary, bonus, annual leave, health benefits, dental care and statutory benefits.	The liability and related expense are recognized in the reporting period in which they occur and are measured on an undiscounted basis.
<b>Post-employment benefits</b>	<p>Benefits payable after the completion of employment (pension plans and other benefits).</p> <p>Refers to</p> <ul style="list-style-type: none"> <li>• the Pension Plan,</li> <li>• the Staff Provident Association,</li> <li>• life insurance,</li> <li>• eligible health and dental benefits,</li> <li>• the long-service benefit program.</li> </ul>	<p>The net asset or liability recognized is composed of the present value of the defined-benefit obligation less the fair value of the plan assets, when applicable.</p> <p>The defined-benefit obligation is calculated by discounting estimated future cash flows using an appropriate interest rate.</p> <p>The plan assets of funded benefit plans are measured at their fair value at the end of the reporting period.</p> <p>The expense recognized in net income for the reporting period consists of current service costs, past service costs, net interest on the net defined-benefit liability/asset, gains or losses arising on settlement (if applicable) and administrative costs. Net interest is calculated by applying the discount rate to the net defined-benefit liability/asset.</p> <p>Re-measurements are recognized immediately in other comprehensive income in the reporting period in which they occur and are accumulated in Equity. Re-measurements comprise actuarial gains and losses, the return on plan assets and the effect of the asset ceiling (if applicable). They exclude amounts included in net interest on the net defined-benefit liability/asset.</p> <p>Past service costs are recognized at the earlier of when the plan amendment or curtailment occurs, or when the Bank recognizes related restructuring costs or termination benefits.</p>
<b>Long-term employee benefits</b>	Refers to the long-term health care or disability program.	<p>The liability recognized is the present value of the defined benefit obligation, calculated by discounting estimated future cash flows using an appropriate interest rate.</p> <p>The expense recognized in net income for the reporting period consists of current service costs, interest costs, re-measurement gains and losses, and past service costs. The current service costs and the benefit obligations of the plan are actuarially determined on an event-driven accounting basis.</p>
<b>Termination benefits</b>	Benefits provided in exchange for termination.	The liability and related expense are recognized in net income at the earlier of when the Bank can no longer withdraw the offer of the termination benefit or when the Bank recognizes any related restructuring costs.



## ACCOUNTING JUDGEMENTS AND ESTIMATES – POST-EMPLOYMENT AND LONG-TERM EMPLOYEE BENEFITS COSTS

The cost of the defined-benefit pension plans and other benefit plans and the present value of the benefit obligations are determined using actuarial valuations. An actuarial valuation involves using various assumptions determined by management and reviewed annually by the actuary that may differ from future developments. These assumptions include

- discount rates,
- inflation rates,
- rates of compensation increases,
- rates of pension increases,
- medical cost trends, and
- mortality rates.

Benefits are based on years of service and the average full-time salary for the best five consecutive years. They are indexed to reflect changes in the consumer price index on the date payments begin and each January 1 thereafter. (BOC)

The significant assumptions used are as follows (on a weighted-average basis). The economic assumptions presented in this note are for the purposes of determining the present value of the defined-benefit obligations and are not an official forecast.

As at December 31	Pension benefit plans %		Other benefit plans %	
	2019	2018	2019	2018
<b>Defined-benefit obligation</b>				
Discount rate	2.5	2.5		
Inflation rate	3	3		
Rate of compensation increase	3.5	3.5		
Mortality tables	Put the reference of the source and respective values			
<b>Benefit plan expense</b>				
Discount rate	2	2		
Inflation rate	3	3		
Rate of compensation increase	3.5	3.5		
<b>Assumed medical cost trend</b>				
Medical cost trend rate	na	na		

The following sensitivity analysis table outlines potential impact of changes in certain key assumptions used in measuring the defined-benefit obligations and benefit costs.

In LC 000	Increase (decrease) in obligation	
	Pension Benefit Plans	Other benefit Plans
<b>Discount rate</b>		
Impact of 0.10% increase	(24)	
Impact of 0.10% decrease	25	
<b>Rate of compensation increase</b>		
Impact of 0.10% increase	5	
Impact of 0.10% decrease	(5)	
<b>Inflation rate</b>		
Impact of 0.10% increase	24	
Impact of 0.10% decrease	(23)	
<b>Medical cost trend rates</b>		
Impact of 0.10% increase	n.a	
Impact of 0.10% decrease	n.a	

## DISCLOSURE – POST-EMPLOYMENT AND LONG-TERM EMPLOYEE BENEFITS COSTS

Employee benefits refer to all forms of consideration provided by the Bank in exchange for services rendered by its employees or for the termination of their employment. These include:

For the year ended December 31 (LC 000)	2019	2018
Short-term employee benefits	157,298	142,452
Post-employment and long term benefits costs	19,165	13,059
Termination benefits	1,580	1,151
<b>Total employee benefits</b>	<b>178,044</b>	<b>156,662</b>

### ■ User Guidance

*Please note that all values shown in this model note are hypothetical and may not reconcile.*

The standard does not require specific disclosures about short-term employee benefits. This leaves the user to decide how and what to disclose regarding short-term employee benefits, other than requirements following other standards. Examples given are IAS 24 regarding benefits for key management personnel and IAS 1 regarding employee benefits expense.

As described in IAS 19.1 “The objective of this Standard is to prescribe the accounting and disclosure for employee benefits”. An entity shall consider the level of detail necessary, emphasis on each requirement, aggregation or disaggregation (see also 19.138) and the need for additional information to evaluate the disclosed information (see also 19.137).

As required in the standard IAS 19.135 (a) and IAS 19.139, central banks normally explain characteristics of their employee benefit plans and risks associated with them. Some central banks manage their pension fund themselves while in some countries, it is managed by a separate entity.

The choice of interest rates for the purpose of retirement benefit is difficult and particularly sensitive for a central bank. The rate should be a long-term rate over the lifetime of the liabilities. It is not linked to current policy rates. Some central banks make a statement that the rates disclosed are solely for the purposes of the accounting, and are not indicative of policy.

## Note 15.1 Employee compensation and short-term benefits

### ■ Business Context

The disclosures on staff compensation need to take account of public perceptions of central bank remuneration, which can be inaccurate and prejudiced, particularly with regard to additional benefits. In this context, disclosure of the components including bonuses, needs to reflect local practice and customs. Central banks should consider giving additional

disclosures as to the composition of the staff compensation and the terms of any benefits.

If staff compensation is linked to terms applicable to government employees or their compensation plans, this should be disclosed.

### DISCLOSURE – EMPLOYEE COMPENSATION AND SHORT-TERM BENEFITS

Short term employee benefits comprise salaries and allowances. Staff may receive allowances for housing and for some training and education, when required by Bank service. Staff may also receive loans at beneficial rates.

The Bank recognizes the amount of short-term employee benefits expected to be paid as an expense or as a liability (accrued expense) after deducting any amount already paid (BOE). The number of persons employed by the Bank at December 31, 2019 was 500 of which 450 were full-time and 50 part-time. (2018: 470; with 430 full-time and 40 part-time). (BOE)

For the year ended December 31 (LC 000)	2019	2018
Wages and salaries	149,858	135,665
Social security cost	7,440	6,787
Total short term benefits	157,298	142,452

### ■ User Guidance

*Please note that all values shown in this model note are hypothetical and may not reconcile.*

The standard does not require specific disclosures about short-term employee benefits. This leaves the user to decide how and what to disclose regarding short-term employee benefits, other than requirements following other standards.

It is also useful to indicate the number of persons on staff, suitably classed into the various management and other staff groupings. Usually central banks also provide information on staff costs in other sections of their annual reports. Beside this, information related with the management personnel compensation is also provided

in the related parties' note of the financial statements as required by IAS 24.17. In this regard, it is important to be cautious and avoid repetition both compared to the annual report section or to the related parties note. Also see disclosures on 'Related Parties'

As required by IAS 19. 11, when an employee has rendered services to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in an exchange for that service. IAS 19. 13, 16 and 19 explains how an entity shall apply paragraph 11 to the short-term employee benefits in the form of paid absences.

## Note 15.2 Post-employment and long-term employee benefits costs

### DISCLOSURE – POST-EMPLOYMENT AND LONG-TERM EMPLOYEE BENEFITS COSTS

Due to the complexities involved in the valuation and its long-term nature, a defined-benefit obligation is highly sensitive to changes in these assumptions. The following table outlines the potential impact of changes in certain key assumptions used in measuring the defined-benefit obligations and benefit costs. The most recent actuarial valuation for the purposes of funding the pension plans was done as at January 01, 2019, and the next required valuation will be as at January 01, 2020. (BOC)

The changes to the net defined-benefit asset (liability) for the year are as follows:

As at December 31 (LC 000)	Pension benefit plans		Other benefit plans	
	2019	2018	2019	2018
<b>Fair value of plan assets</b>				
Fair value of plan assets as at January 1				
Interest income				
Remeasurement gains (losses)				
Return on plan assets				
Bank contributions				
Employee contributions				
Benefit payments and transfers				
Administration costs				
<b>Fair value of plan assets as at December 31</b>				
<b>Defined-benefit obligation</b>				
Benefit obligation as at January 1				
Current service cost				
Interest cost				
Past service cost				
Employee contributions				
Remeasurement (gains) losses				
Arising from changes in demographic assumptions				
Arising from changes in experience				
Arising from changes in financial assumptions				
Benefits payments and transfers				
Defined-benefit obligation as at December 31				
<b>Net defined-benefit asset (liability)</b>				
Net defined-benefit asset	95,603	99,142		
Net defined-benefit liability	(38,446)	(58,074)		
<b>Net defined-benefit asset (liability)</b>	<b>57,157</b>	<b>41,068</b>		
<b>Benefit plan expenses recognized in net Income</b>				
<b>Remeasurement losses (gains) recognized in other comprehensive income</b>	<b>600</b>	<b>300</b>		

The defined-benefit obligation, presented by membership category, is as follows:

As at December 31 (LC 000)	Pension benefit plans		Other benefit plans	
	2019	2018	2019	2018
<b>Membership category</b>				
Active members	340	370		
Pensioners	450	452		
Deferred members	30	34		
<b>Total defined-benefit obligation</b>	<b>820</b>	<b>856</b>		

The cumulative re-measurement losses recognized in other comprehensive income are as follows:

	Pension benefit plans		Other benefit plans	
	2019	2018	2019	2018
Cumulative remeasurement losses recognized, beginning of year	(2,000)	(2,300)		
Remeasurement gains (losses) recognized in current year	600	300		
Cumulative remeasurement gains (losses) recognized, end of year	(1,400)	(2,000)		

The pension benefit plan assets consist of the following:

	Pension benefit plans		Other benefit plans	
	2019	2018	2019	2018
Money market instruments				
Equity instruments				
• Utopian equity funds				
• Foreign equity funds				
Debt instruments				
• Securities issued or guaranteed by government of Utopia				
Fixed income funds				

## ■ User Guidance

*Please note that all values shown in this model note are hypothetical and may not reconcile.*

As required in the standard, central banks normally explain characteristics of its employee benefit plans and risks associated with them. Some central banks also manage the pension fund themselves while in some countries, it is managed by a separate entity. This should be disclosed.

As required by IAS 19.145, an entity shall disclose a sensitivity analysis for each significant assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. An entity shall also disclose methods and assumptions used in preparing the sensitivity analysis required and changes from the previous period in the method and assumptions used and reasons for such changes. Central banks may include a comment that these assumptions are only for the purposes of the IAS 19 accounting and are not an official forecast.

As required by IAS 19.135 (b) detailed in 19.140-144, entities shall disclose information that identifies and explains the amounts in their financial statements arising from their defined benefit plans. This is usually done by presenting the information in different tables to meet the detailed criteria in IAS 19.

As required by IAS 19. 140, an entity shall provide a reconciliation from the opening balance to the closing balance for net defined benefit liability showing separate reconciliation for plans assets, the present value of the defined benefit obligation, the effect of the asset ceiling and any reimbursement rights. (also see IAS 19. 141)

IAS 19.137(a) requires disclosure could include analysis of the present value of the defined benefit obligation between amount owing to active members, deferred members and pensioners. Based on IAS 19.135 (a) and IAS 19.139, the central bank would normally explain the characteristics of its employee benefit plans and risks associated with them.

As required by IAS 19.142, an entity shall disaggregate the fair value of the plan assets into classes that distinguishes the nature and risk of those assets, subdividing each class of plan asset into those that have quoted market price in the active market and that do not.

## Note 15.3 Termination benefits

### DISCLOSURE – TERMINATION BENEFITS

When staff leave the Bank, after a qualifying period of 12 months service, they are entitled to a gratuity of one month's pay for each completed year of service. The Bank makes provision for these costs over the period of service, using assumptions as to the likely pattern of departures. Should staff leave in circumstances under which they receive benefits in return for the termination of the employment, such costs are recognized when the Bank can no longer withdraw the offer.

### ■ User Guidance

When employees leave the central bank, they may be entitled to some additional gratuity payment depending on the length of service. This will depend upon local laws and practices and so needs to be explained.

If the Bank engages in a restructuring that is a change in the organization with a reduction in staff numbers, then it should consider disclosing the terms. Local laws may also govern these including minimum redundancy terms. Note that these disclosure requirements also apply to directors.

If the central bank is engaged in a restructuring, it will normally incur costs other than staff costs, for example closure of buildings, transfer of equipment. It is normal that a provision for these will be made in advance of the actual restructuring. Under IAS 37.72 such a provision may only be recognized in certain prescribed circumstances, including:

- (a) the existence of a detailed formal plan identifying,
  - the business or part of business concerned;
  - the principal locations;
  - the location, function and approximate number of staff that will need compensation for termination of employment;
  - the expenditures involved;
  - when the plan will be implemented; and,
- (b) has raised valid expectations in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

# NOTE 16

## Printing and minting costs

### ■ Business Context

Most central banks are the responsible and authorized entities for the printing of banknotes, and in some cases for minting coins, for their country. The design, issuance, custody and distribution of these goods have costs that are part of the central bank's expenses.

Some central banks produce their own banknotes and coins and buy the materials for producing them while other banks buy the final products directly or outsource the printing while buying the raw materials. That is why it is also important to be mindful that the composition of these expenses will vary for each case.

IFRS does not specifically cover these transactions, therefore the options mentioned here are the best practices, considering the relevance and reliability required in IAS 8.10 and this should be disclosed as required in IAS 1 considering the nature of the central bank's operations.

Depending on the central bank's approach, there may also be assets for inventory.

### ACCOUNTING POLICY – PRINTING AND MINTING COSTS

Expenses for the production of currency are recognised in profit or loss when the new banknotes and coins are released into circulation.

### DISCLOSURE – SIGNIFICANT ACCOUNTING POLICIES

The Bank purchases finished banknotes and coins from a third-party supplier. The costs of unissued banknote and coin stocks are recognized in the *Statement of Financial Position as Inventory*. Banknote and coin costs are charged to profit or loss in the year in which they are issued. (CBK)

### ■ User Guidance

Broadly, there are three options for the management of banknote and coin production costs. These include:

- Production costs charged when the note is released into circulation (IAS 2);
- Production costs amortized over their useful life (IAS 16); and
- Production costs charged upon receipt of finished goods (IAS 1).

The model statements are based on the first option. Appendix III provides an overview of the remaining options. Adopting an IAS 2 approach allows new banknotes to be inventoried at a cost of production. When the new banknotes are released into circulation, the production cost of these notes (on a cost per note basis) is expensed (an accepted method of costing should be selected, and this is stated in the accounting policy of the Inventories note). Unissued new banknote costs are retained in the balance sheet as an inventory item, herein referred to as Deferred Currency Costs.

This approach aligns the cost as to when the benefit is received, assuming the benefit is received when the new note is released, and the old note removed from circulation. There could be a problem applying this method if the release of new notes is sporadic because it can result in volatility of banknote expense in the Income Statement.

The central bank could indicate at Note 1: Reporting Entity and Statutory Base, if they buy the banknotes and coins or if they produce them. Where the central bank produces its own currencies, information about materials and stages necessary for the production will be disclosed in the note related to IAS 2. There are other options considered as good practices that could be more appropriate for the different management of these operations.



## NOTE 17

# General and administrative costs

### ■ Business Context

The most common administrative expenses items for central banks include depreciation, utilities, building and equipment maintenance costs and fees for contractual services. Other items include membership

fees, post and telecommunication services, financial literacy expenses, travel costs, membership fees, hospitality, consultancy etc.

### ACCOUNTING POLICY – GENERAL AND ADMINISTRATIVE COSTS

Administrative costs are expensed as the services are received.

### DISCLOSURE – GENERAL AND ADMINISTRATIVE COSTS

The Bank's administrative expenses for the year include:

For the year ended December 31 (LC 000)	2019	2018
Depreciation	20,098	13,124
Other building and equipment costs	11,946	8,728
Administration costs	23,512	17,119
Other costs	22,790	38,952
<b>Total administrative costs</b>	<b>78,347</b>	<b>77,923</b>

### ■ User Guidance

Central banks may either decide to provide a short description of the most relevant item e.g. depreciation and amortization, and on any specific situation which needs to be annotated, or just provide a table with the respective amounts for each of the items.

In instances where part of an expense item appears elsewhere the note should so indicate.

If the central bank has a publicly available strategy plan which include financial management objectives, these may be referenced though care may need to be considered as they may expand the scope of the external auditors.

Notes should also include additional information on expenses reported under “Other” or “Miscellaneous”. Based on the materiality of the item, the central bank can choose which term is better in providing more detail for the public. The “Other” or “Miscellaneous” component of administrative costs should generally not exceed 10% of the total. But excessive detail should be avoided unless some items are meaningful.

# NOTE 18

## Taxation

### ■ Business Context

It is common that central banks, because of their unique relationship with the government, are exempted from income or corporate tax. In such case, the central bank should disclose in the financial statements the respective legal framework related with such exemption.

On the other hand, central banks pay Value Added Tax (VAT) for the products and services they buy, which if not reimbursable or deductible by tax legislation, should be registered as an expense.

Regarding the other taxes or levies such as, for instance, customs tax, local municipality taxes or other, these should be recorded as expenses.

It sometimes happens in practice that, because of the vague legislative provisions on the income tax treatment for central banks, the central bank may face uncertainties on their treatment. For financial statements purposes, the central bank may refer to IFRIC 23 “Uncertainties over income tax treatment”, beside IAS 12.

### ACCOUNTING POLICY – TAXATION

The Bank is obliged to pay certain taxes. Value Added Tax (VAT) is a recoverable tax applied on all goods and services purchased. VAT is recorded in the Bank’s balance sheet current accounts until they have been recovered or paid, as the case may be. All non-recoverable taxes are included with the expense of goods and services from which it was due. (See also BOJ, NBU, and CBBH)

### DISCLOSURE – TAXATION

Pursuant to the Bank of Utopia Act, the Bank is exempt from any taxation imposed by the law in respect of income or profit. Instead of this, the Bank distributes 100 percent of its excess profit to the Government of Utopia. Distributions to the Government of Utopia are recorded in the Statement of Changes in Equity.

### ■ User Guidance

There are 3 situations for taxation applied to/by central banks worldwide on their activities (as opposed to any role as tax agent):

- full exemption from taxation; (NBG)
- central bank is exempt from taxes related to income or profit, but pays other taxes (such as VAT) as an ordinary taxpayer; (BOC)
- pays all taxes as an ordinary taxpayer including income tax. (SARB; BOE)

The second approach is the most widespread.

When the central bank has to pay any non-recoverable value-added taxes (other than income tax) according to the local legislation, they are typically recognized as part of the cost of the underlying item or service. Other taxes payable by the central bank are usually recorded within administrative and other expenses and can be disclosed as a separate line item within the table in the respective Note (Note 17 General and Administrative costs). If the amount of tax expenses is not material it can be

included in the “other” line item of the administrative expenses. A list of the most significant expenses, which “other” contains, can be presented below the table. Tax expenses can be included in this list. (NBU)

Central banks as an employer usually collect and pay payroll tax (as a tax agent). They also can be obliged to pay social contributions in the name of its employees. Such contributions borne by the central bank on its own account are recognized as expenses when calculating salaries. These amounts can be disclosed as a separate line item within the table in the respective Note on Employee benefits. (NBM)

## NOTE 19

# Realized and unrealized revaluation gains and losses

### ■ Business Context

Realized gains and losses are profits or losses arising from completed transactions. Unrealized revaluation gains and losses refer to profits or losses that have occurred more commonly known as 'on paper', but the relevant closing out transactions have not been completed. IFRS provides guidance on how organization

shall treat revaluation gains and losses under most circumstances. Nevertheless, the distinction between realized and unrealized gains or losses from foreign currency exchange rate revaluations and monetary gold price revaluations are two common exceptions not specifically addressed under IFRS.

### ACCOUNTING POLICY – REALIZED AND UNREALIZED REVALUATION GAINS AND LOSSES

Realized revaluation gains and losses primarily represent amounts realized when assets or liabilities have been derecognised. Realized gain/loss includes transaction costs, which are expensed as incurred. Transaction costs are defined as all costs directly attributable to the completed transaction. Unrealized gain/loss represents changes in fair value for the period for the related balance sheet line item.

For foreign reserve assets and liabilities, foreign currency exchange rate revaluation gains and losses are considered realized when i) the foreign currency is converted to LC for use in LC, ii) when used to settle a third-party foreign currency obligation, whether for the Bank or on behalf of the Government of Utopia.

Monetary gold price revaluations, and revaluations for financial assets at FVPL are considered realized when the gold or financial instrument is sold.

### *Statement of Judgements and Estimates*

Gains and losses on financial instruments are due to changes in the price of the instrument (before foreign exchange gains and losses) and changes in foreign currency exchange rates (foreign exchange gains and losses). These are presented separately in the income statement. The method for allocating total gains and losses in LC to a security element and a foreign exchange rate revaluation element is described below. Different methods will result in different estimates. (NB)

#### *i) Foreign exchange element*

Unrealised gains or losses due to changes in foreign exchange rates are calculated based on the weighted average original cost of the holding in local currency and the change in the foreign currency exchange rate from the time of purchase until the balance sheet date. If the holding has been purchased in a previous period, gains and losses recognised in the income statement in previous periods are deducted to arrive at the gain or loss for the current period. For realised gains or losses, the weighted average historical costs and the foreign exchange rate on the date of sale is used for calculating realised gains or losses, and previously recognized unrealised gains or losses for the holding are reversed in the current period. (NB)

## *ii) Security element*

Unrealised gains or losses from changes in the security, derivative, or monetary gold price are calculated based on the change in the instrument's price from the purchase date to the balance sheet date and the closing exchange rate at the balance sheet date. If the holding was acquired in a previous period, gains and losses recognized in the income statement in previous periods are deducted to arrive at the gain or loss from security prices for the current period. When the holding is sold, the holding's selling price is used for calculating realised gains or losses, and previously recognized unrealized gains or losses for the holding are reversed in the current period. (NB)

## **DISCLOSURE – REALIZED AND UNREALIZED REVALUATION GAINS AND LOSSES**

The Bank manages the foreign reserves for Utopia; which comprise foreign currency financial instruments and monetary gold. Foreign reserve assets are subject to foreign currency exchange rate and price revaluations. Revaluation gains and losses are considered unrealized until the underlying position is derecognized.

## **■ User Guidance**

Whether as a separate note disclosure or included in other notes, the central bank should be transparent on how it assesses whether a foreign currency exchange rate or monetary gold price revaluation is realized or not. These amounts can be quite material for many central banks and can draw significant interest of politicians and the public; often calling for the release (e.g. distribution) of the unrealized portions.

The distribution of these unrealized revaluations gains effectively monetizes the amount in local currency while the underlying foreign currency remains open. If the exchange rate or prices then revert, the central bank will be exposed to negative equity, weakening its credibility as a financial sector backstop.

See also CBSL; MMA

# NOTE 20

## Profit distributions

### ■ Business Context

Distribution of a central bank's profit is typically defined by the central bank's organic law. IFRS does not provide specific guidance on disclosure of dividends. The central bank should use the opportunity to provide the reader of the financial statements with a reasonable

understanding of its distribution policy. The central bank's transparency in this regard can be useful in alleviating undue political or social concern regarding the central bank's operations and profits.

### DISCLOSURE – PROFIT DISTRIBUTIONS

The Bank's profits distributions are determined in accordance with the Bank of Utopia Act. Distributable profit is based on Profit or Loss as determined in accordance with IFRS (before Other Comprehensive Income) with the following adjustments:

- i) Deduct any unrealized foreign exchange rate revaluation gains or losses resulting in the year;
- ii) Add any amounts of unrealized foreign exchange rate revaluation gains or losses recorded in prior periods that have been realized in the year;
- iii) Allocate amounts to other reserves as required or allowed by the Bank of Utopia Act;
- iv) If the remaining amount is negative, allocate the amount to the General Reserve. If positive, allocate 70 percent of the remaining amount to the General Reserve until it attains 7.5 percent of reserve money;
- v) If there are any overdue amounts payable by the Government of Utopia to the Bank, allocate the remaining amount against these amounts first until fully exhausted;
- vi) the remaining amount after all deductions and additions noted above is considered distributable to the Government of Utopia.

Distributable profits payable to the Government of Utopia shall be transferred no later than the 10th working day after the audit of annual financial statements has been completed by external auditor and approved by the Bank's Council.

As at December 31, 2019, profits distributable payable by the Bank to the Government of Utopia amounted to LC 1,585,242,000 (2018: LC 1,098,932,000).

For the year ended December 31 (LC 000)	2019	2018
<b>Profit for the year</b>	<b>4,166,596</b>	<b>(1,637,005)</b>
Less:		
Transfer to foreign currency revaluation reserve	(2,905,581)	2,735,115
Transfer to fair value revaluation reserve	(987)	822
Other accounting adjustments	–	–
...		
Add:		
Transfer from foreign currency revaluation reserve	325,214	–
Transfer from fair value revaluation reserve	–	–
<b>Profit for distribution</b>	<b>1,585,242</b>	<b>1,098,932</b>

## ■ *User Guidance*

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The above note is provided as an example only. The central bank should provide either a reasonable articulation of the calculations or, if publicly available, a reference to its organic law. The disclosures for profit distributions must be tailored against the central bank's organic law. As opposed to detailing the methodology (as shown above), the central bank may elect to reference the appropriate articles in its organic law.

The treatment of the distributable profit varies as to whether or not it is recognized as a liability at the year end. It will depend on the precise wording of the law.

## NOTE 21

# Fair value of assets and liabilities

### ■ Business Context

IFRS 13 is the standard which defines fair value and sets out in a single IFRS a framework for measuring fair value; and requires disclosures about fair value measurement. [IFRS 13.1]

It establishes a fair value hierarchy that categorizes into three levels from 1 to 3 the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). [IFRS 13.72]

Most central banks apply level 1 of fair value hierarchy to determine fair value of the majority of their financial assets, given that their investments are with highly rated financial institutions.

Beside the above, central banks should also disclose quantitative information on financial assets not measured at fair value, but for which the fair value is disclosed. [IFRS 13.97] This includes financial instruments measured at AC, whose fair value significantly differs from their carrying value.

### DISCLOSURE – FAIR VALUE OF ASSETS AND LIABILITIES

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. (NBG)

### ■ User Guidance

IFRS requires disclosure of how fair value is calculated and of the levels of fair value, these levels indicate the degree of objectivity in the fair value calculation. For most foreign reserve assets held by central banks, there are market values, so the fair value for these will be level 1. However, for other assets, including most derivatives,

the fair value will be derived from another market price. Hence these will be level 2. Central banks normally have few assets in level 3, which is calculated by reference to a model. However, there may be some, particularly some domestic assets in jurisdictions where there is no developed market.



## Note 21.1 Assets and liabilities measured at fair value

### DISCLOSURE – ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

For those financial instruments measured at fair value, these are revalued on a recurring basis.

Some of the Bank's financial instruments are measured at fair value at the end of each reporting period. Financial instruments measured at fair value are broken down for disclosure purposes into a three-level fair value hierarchy based on the observability of inputs: (NBG)

- Quoted prices in an active market (**Level 1**) – Level 1 comprises assets that are valued based on unadjusted quoted prices in active markets. An active market is a market in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis;
- Valuation techniques using observable inputs (**Level 2**) – Assets and liabilities classified as Level 2 are valued using models with inputs that are either directly or indirectly observable. Inputs are considered observable when they are developed using market data reflecting actual events or transactions; and,
- Valuation techniques incorporating information other than observable market data (**Level 3**) – Assets classified as Level 3 are valued using models with significant use of unobservable inputs. Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset. (NB)

The table below provides an analysis of the financial instruments measured at fair value at December 31, 2019 and 2018, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position. (NBG)

There were no transfers between Level 1, 2 and 3 during the year ended December 31, 2019 and 2018.

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used).

		Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
As at December 31 (LC 000)	Note No	2019	2018			
Financial assets in foreign currency						
Derivative financial assets	3.2	120,000	84,000	Level 1	Quoted bid prices in active market	N/A
Investment at FVPL	3.2	1,082,152	1,651,692	Level 1	Quoted bid prices in active market	N/A
Investments measured at FVOCI	3.2	6,330,735	7,103,445	Level 1	Quoted bid prices in active market	N/A
Equity investments at FVOCI	3.2	8,100	8,000	Level 2	Market interest rate for similar instruments	
Financial liabilities in foreign currency						
Derivative financial liabilities	3.2	8,100	8,000	Level 1	Quoted bid prices in active market	N/A

### User Guidance

Most of the financial assets included in foreign reserves that are measured at fair value, which are typically classified as FVOCI with some at FVPL, are invested in highly rated international financial institutions. Therefore, it is possible to determine FV for these based on quoted bid prices in active markets for identical financial instruments. The same practice may apply to derivatives, although these are often Level 2. Usually central banks get this information from Bloomberg or another price service.

For financial instruments in domestic currency, such as government securities, market prices are usually less common. Hence many central banks determine the fair value using observable inputs under level 2 of FV hierarchy, meaning market yields on similar instruments issued by the respective Government.

See also IFRS 13. 9, IFRS 13. 91-93

## Note 21.2 Assets and liabilities not measured at fair value on a recurring basis but for which fair value disclosures are required

### DISCLOSURE – SIGNIFICANT ACCOUNTING POLICIES

For fixed rate interest bearing financial assets and liabilities that have a short-term maturity, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.

For variable rate interest bearing financial assets (Government of Utopia bonds classified as AC) and liabilities (borrowings from the IMF), it is assumed that the carrying amounts approximate to their fair value. Moreover, management of the Bank believes that due to their specific nature, borrowings from the IMF represent a separate segment of borrowings from international financial organizations to support developing countries. As a result, these borrowings were considered received in an “arm’s length” transaction. (NBG)

As at December 31 (LC 000)	Note No	2019 Carrying amount as approximation of FV	2018 Carrying amount as approximation of FV	Fair value hierarchy
<b>Financial assets</b>				
Cash and balances with banks	3.1; 3.2	70,067,587	61,740,284	Level 2
Loans due from financial institutions	3.3 (a,b)	500,000	550,000	Level 2
Securities at AC	3.2; 3.4 (a)	2,541,668	4,550,751	Level 2
IMF related assets	5	2,537,070	2,337,041	Level 2
Advances to government	3.4 (b)	1,234,500	1,100,000	Level 2
Other assets	11	159,793	314,169	Level 3
<b>Financial liabilities</b>				
Due to local and foreign banks and FI	3.3 (f); 3.3 (c); 3.5; 7 (b)	34,543,439	31,868,579	Level 2
Due to government	3.4 (c)	7,555,118	9,000,228	Level 2
IMF related liabilities	5	2,096,913	1,933,723	Level 2
Certificates of deposits issued by Bank of Utopia	3.3 (e)	5,000,944	3,507,159	Level 2
Other liabilities	11	341,786	1,649,637	Level 3

### User Guidance

The most typical items in this category for a central bank include funds and deposits in foreign currencies, SDR holdings and IMF quota contributions, loans to banks, other financial assets, banknotes and coins in circulation, accounts of banks, accounts of government and other institutions, and liabilities to the IMF, other financial liabilities.

To determine the FV of these financial instruments, the central bank may use discounted cash flow techniques, which take into account future interest payments and principal repayments, the repayment period, and a discount rate (e.g. the central bank rate).

The standard allows the central bank to not provide the quantitative disclosures about insignificant unobservable inputs used in fair value measurements categorized within Level 3.

See also IFRS 13.97

## NOTE 22

# Related party disclosures

### ■ Business Context

The IFRS framework dedicates a whole standard (IAS 24) to related party disclosures. From a central bank's perspective, the Government will always be a related party, because of the unique relationship they have with each other. Other entities owned by the government may also be related parties.

In addition, key management personnel (as defined by IAS 24.9) of the central bank as well as pension funds

which are administrated by the central bank, are also considered typical related parties.

It is relevant to disclose the terms of transactions with the key related parties. In particular whether loans to, and deposits from the government bear interest.

### ACCOUNTING POLICY – RELATED PARTY TRANSACTIONS

The Bank of Utopia is owned by the Government of Utopia and, under IAS 24.25, is exempt from the disclosure requirements pertaining to related party transactions and outstanding balances, including commitments, with the Utopian government. This includes transactions with other entities that are related parties because the Government of Utopia has joint control of, or significant influence over both the Bank and the other entities. (NB)

### DISCLOSURE – RELATED PARTY TRANSACTIONS

For the purpose of these financial statements, parties are considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 – *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely to the legal form. (NBU)

Persons or entities are considered related parties to the Bank if they are:

- under common ownership of the Government of Utopia;
- a post-employment benefit plan for the benefit of Bank employees; or
- a member of key management personnel, which include members of the Council, or the Board of Directors, and their families. (BOC)

#### a) Government of Utopia

The Bank is related in terms of common ownership to all Government of Utopia departments, agencies and corporations. To achieve its monetary policy objectives, the Bank maintains a position of structural and functional independence from the Government of Utopia through its ability to fund its own operations without external assistance, and through its management and governance.

In the normal course of its operations, the Bank enters into transactions with related parties, and significant transactions and balances are presented in these financial statements. Not all transactions between the Bank and government-related entities have been disclosed, as permitted by the partial exemption available to wholly owned government entities in IAS 24 – Related Party Disclosures.

The Bank provides funds-management, fiscal agent and banking services to the Government of Utopia as mandated by the Bank of Utopia Act and does not recover the costs of these services. (BOC)

### **b) Bank of Utopia Pension Plan**

The Bank provides management, investment and administrative support to the Pension Plan. Services in the amount of LC 200,000 (LC 180,000 in 2018) were fully recovered from the Pension Plan in 2019. Disclosures related to the Bank’s post-employment benefit plans are included in Note 15.2. (BOC)

### **c) Key management personnel and compensation**

The key management personnel responsible for planning, directing and controlling the activities of the Bank are the members of the Bank’s Council and Board of Directors.

The number of key management personnel as at December 31, 2019, was 50 (47 in 2018).

The compensation of key management personnel is presented in the following table. Short-term employee benefits and post-employment benefits apply to Bank employees only.

There were no other long-term employee benefit costs or termination benefits related to key management personnel in 2019 (LC nil in 2018). (BOC)

For the year ended December 31 (LC 000)	2019	2018
Short term employee benefits	57,000	42,000
Post-employment benefits	8,000	3,000
Director’s fees	250	200
<b>Total compensation</b>	<b>67,269</b>	<b>47,218</b>

## **■ User Guidance**

Some central banks provide, under the “Related parties” note, detailed information on the respective exposures toward the Government or other related institutions (e.g. see NBU; NBG; MMA; RBM). Some others chose to make reference to other notes in the financial statements (such as “Due from Government and other Government Agencies (e.g. see BOJ)”; “Due to Government and other State agencies (e.g. see BOA)”; “Loans and advances to Government (BOU)” or “Investment securities (e.g. see BOA)”) where they have already described and mentioned these type of exposures.

Both options are acceptable.

The standard [IAS 24.17] requires that the entity, which in our case is the central bank, should disclose key management personnel compensation in total and for each of the following categories:

- short-term employee benefits;
- post-employment benefits;
- other long-term benefits;
- termination benefits; and
- share-based payment.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive

or otherwise) of that entity (IAS 24.9). The disclosure of such information, including the individuals covered, depends on the organization structure of each central bank. Key management personnel in a central bank will normally include council members, Governors and Deputy governors. It may also include other directors, depending upon the structure of the central bank.

Loans to directors both executive and non-executive, require disclosure. If on the same terms as staff this should also be stated. All transactions with, and benefits paid to key management personnel (and close members of their family) should be included.

If the central bank has direct ownership in other financial institutions e.g. banks, they should also disclose such information based on the standard's requirements.

See also Employee Benefits Note 15, as well as Appendix V for examples of subsidiaries, associates, and Transactions with non-controlling interests

## NOTE 23

# Provisions, contingencies and commitments

### ■ *Business Context*

Central banks may have provisions related with legal claims, such as from former employees or from contracted companies. Note that, under IFRS, provisions may only be made for actual liabilities. Amounts set aside before arriving at profit, for future risks, called provisions and permitted under other accounting frameworks are not allowed under IFRS as liabilities, but may be created as reserves, created out of profit.

With regard to contingencies, the most typical case is related to outstanding legal claims against the central bank, where the liability is not known yet. Besides, some

central banks have shares in other financial institutions (e.g. BIS) and part of the shares is paid in cash and the other one is callable at a certain time notice by a decision of the respective authorities. The callable amount should be disclosed as a contingent liability.

Besides the above, central banks may have commitments with external counterparts related with the purchase of goods and services. Typically, these include projects in process such as building a new premise, computers, software development but also lease payments.

### ACCOUNTING POLICY – PROVISIONS, CONTINGENCIES AND COMMITMENTS

#### *a) Provisions*

A provision is recognized if, as a result of a past events, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognized as a provision is measured as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. (BOA)

#### *b) Contingencies*

Contingent liabilities are possible obligations that could result from uncertain future events outside of the Bank's control, or present obligations not recognized because the amount cannot be adequately measured, or payment is not probable. Contingent liabilities are not recognized in the financial statements but are disclosed if significant. (BOC)

#### *c) Commitments*

A commitment is an enforceable, legally binding agreement to make a payment in the future for the purchase of goods or services. These amounts are not recorded in the statement of financial position since the Bank has not yet received the goods or services from the supplier. (BOC)

**a) Provisions**

At December 31, 2019, the Bank was a party to 13 lawsuits, in respect of various issues, including labour claims, liquidations of financial institutions and privatizations.

The legal department assesses all these lawsuits, taking into consideration the amount under litigation, the stage of the litigation and the risk of loss. The risk of loss is calculated based on decisions occurring in the process, on the applicable case law and on precedents for similar cases. Provisions are recorded for 100% of the amount at risk (including an estimate of fees for the loss of the lawsuit) for all the litigation where the risk of loss is classified as probable (e.g. where the risk of loss is assessed as greater than 50 percent).

At December 31, 2019 provisions were recorded for an amount of LC 150,000 compared to LC 140,000 at December 31, 2018. (BCB)

**b) Contingencies**

Claims against the Bank may be raised in the normal course of business, including contingent liabilities in respect of legal claims outstanding against the Bank. The lawsuits in which the risk of loss was considered as less than probable and more than remote, were classified as contingent liabilities and, accordingly, no provisions were recorded. At December 31, 2019 there were 4 lawsuits (4 at December 31, 2018) in this situation, totalling LC 100,000 (LC 100,000 at December 31, 2018). (BCB)

**c) Commitments**

As at December 31, 2019, the Bank has entered into capital commitments of LC 70 million (2018: LC 70 million) for the reconstruction of one of its buildings. (BOA)

**■ User Guidance**

Central banks may offer standing facilities to their governments or commercial banks, such as guarantees of FX facilities and swaps. These should be disclosed here.

Central banks also give loans to their staff and the disbursement time is different from the approval time of the loan. Therefore, central banks have credit commitments to be registered for the loans which have been approved but not yet disbursed. As these are not usually material, disclosure may not be warranted.

Although not that common, central banks may also have contingent assets, where an inflow of economic benefits is probable. In such cases, the standard [IAS 37.89] requires that the central bank shall disclose a brief description of the nature of the contingent asset at the end of the reporting period, and, where practicable, an estimate of their financial effect.

See also IAS 37

## NOTE 24

# Changes in accounting policies

### ■ *Business Context*

Changes in accounting policy should be rare and require extensive explanation and disclosure. The most common reason for a change is the implementation of a new standard. When a policy is changed, the reasons and effects must be disclosed. Normally the prior year must be restated on the new policy. However, for a new or amended standard, the specific disclosure requirements will be specified in the standard [IAS 8].

A change in accounting policy needs to be distinguished from a change in the application of a policy. For example, a change in depreciation rate is not a change in policy, but a change in the application of a policy. However, a change in basis from cost to fair value would be a change in policy.

### DISCLOSURE – CHANGES IN ACCOUNTING POLICIES

#### IFRS 16 – Leases

The Bank of Utopia has adopted IFRS 16 retrospectively as issued by IASB in January 2016 with a date of transition of 1st January 2019. The adoption of IFRS 16 did not have any adjustments or recognition arising from new leasing rules on the Bank's financial statements. The Bank does not have any lease contracts except for a short-term lease which had no change in treatment due to the adoption of IFRS 16. (MMA, 2019)

### ■ *User Guidance*

It is important to make the difference between changes in accounting policies and changes in accounting estimates. By nature, the revision of an estimate is not considered as a correction of an error [IAS 8.34]. A change in the measurement basis applied is a change

in an accounting policy and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.



# NOTE 25

## Standards that are not yet effective

### ■ Business Context

IFRS requires disclosures of new standards and other pronouncements from the IASB and International Financial Reporting Interpretation Committee (IFRIC) that are not yet in force, together with the estimated impact. In many cases the impact will be immaterial,

but this must be stated. The extent of the disclosure will depend on the timescale before implementation. Best and most common practice is that in the year prior to the date the standard or pronouncement takes effect, the disclosure should include the estimated financial impact.

### DISCLOSURE – STANDARDS THAT ARE NOT YET EFFECTIVE

A new standard is going to be applicable for periods beginning on or after January 01, 2023. The Bank has not applied the following new standard in preparing these financial statements.

#### IFRS 17 – Insurance contracts

In May 2017, the IASB issued IFRS 17, which establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard.

The mandatory effective date for the adoption of IFRS 17 is January 01, 2023, as determined by the IASB, although earlier application is permitted for companies that have already adopted IFRS 15 and IFRS 9. As of year-end 2019, the Bank's management does not expect to have any material effect on its financial statements as a result of the implementation of IFRS 17. (BOJ)

### ■ User Guidance

In order to be compliant with the standard, central banks should disclose the following information [IAS 8.31]:

- The title of the IFRS;
- the nature of the impending change or changes in accounting policy;
- the date by which application of the IFRS is required;
- the date as at which it plans to apply the IFRS initially; and
- either
  - i) a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements;
  - or
  - ii) if that impact is not known or reasonably estimable a statement to that effect.

For illustration purposes in this document, we have provided the required information for IFRS 17. Every central bank should disclose the required information based on the standard or standards not effective yet by the time when the respective financial statements will be drafted.

## NOTE 26

# Events after the reporting period

### ■ Business Context

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue [IAS 10.3]. The date of approval is required to be disclosed in the financial statements. The body giving this approval should also be disclosed. Practice varies across jurisdictions. In some countries the signatures of senior officials are affixed to the balance sheet. In others they also appear on the income statement.

If the central bank has material events after the reporting period, they should disclose such. For instance, the measures undertaken in 2020 by central banks as a result of the COVID-19 pandemic may have a material impact the balance sheet of the central bank in the current and/or following years and would require disclosure.

### DISCLOSURE – EVENTS AFTER THE REPORTING PERIOD

The Bank's Council approved the financial statements on 28 February 2019. (BOC)

There have been no material events, occurring after the reporting date that require adjustments to or disclosure in the financial statements. (MMA)

### ■ User Guidance

The authorizing authority of the central bank may be the Council, Executive Board or the Supervisory Board depending on the central bank's structure. [IAS 10.17] The date of authorization is important as this is the date up to which post balance sheet events need to be considered.

Below are two examples of a note for disclosing events after the reporting period.

"In February 2019, the Bank repaid its liabilities to the IMF under the Stand-By Arrangement in the amount of SDR (000) (LC (000)) at the official exchange rate at the repayment date, or LC [000] at the IMF's annual exchange rate." (NBU)

"Following the financial year end and as agreed in an exchange of letters between the Governor of the Bank and the Chancellor of the Exchequer on 21 June 2018, the Bank received a capital injection from HM Treasury for an amount of £(000)bn on 22 March 2019 to increase the Bank's loss-absorbing capital to £(000)bn." (BOE)

# Appendices

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## APPENDIX I.

# First Time Adoption of IFRS

Even though the adoption of IFRS will be specific to the circumstances of the individual central bank, there are a number of general points that apply. The IFRS framework dedicates a whole standard – IFRS 1 – to first time adoption of IFRS. It specifies how entities should apply the standards for the first time, including the requirements for comparative information for the respective statements. It also includes guidance on how to explain how the transition from the organization's previous accounting framework being followed to IFRS will affect the central bank's reported financial position, financial performance and cash flows.

The adoption of IFRS is not simply an exercise for the accounting function. The exercise is best organized as a project with dedicated skilled resources and aligned with the project management conventions followed at the bank. This should include a project manager and a coordinating committee. The transition will typically involve many departments within the central bank, especially with regard to the financial instrument disclosures. The transition to IFRS requires the support and involvement of the senior management – this is both in its governance function overseeing the project for the transition and as participants on issues such as formulation of the disclosures and impact on profit distribution.

If a central bank adopts IFRS for the first time including the application of IFRS 9, it may combine the transitional arrangements of both IFRS 1 and IFRS 9. By combining the transitional arrangements, the central bank applies the exemption in appendix E of IFRS 1 stating that it does not need to restate the IFRS 9 related comparatives for financial instruments. The central bank will still need to restate the comparatives for all other IFRSs as required by IFRS 1. If the central bank does not wish to apply the IFRS 9 transitional exemption, it must restate the comparatives including

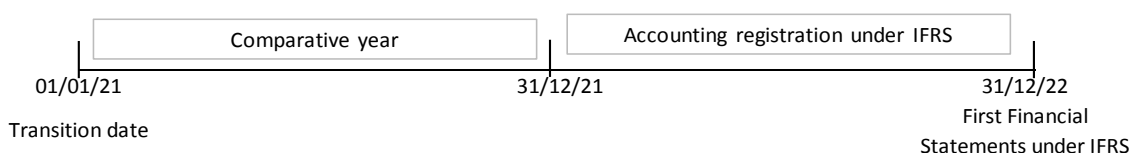
the effect of applying IFRS 9, which may simplify the transitional disclosures.

The transition process should start about three years before the intended date of first adoption. So, for example, if the first financial statements under IFRS are planned for December 31, 2022, for publication in early 2023, the process should begin during 2020. There is a common misunderstanding over the adoption of IFRS and the date of actual transition – the latter being when the adjustments are made. In this example, with the first financial statements being issued in compliance with IFRS as at December 31, 2022, there is a requirement to restate and include the comparative year, December 31, 2021 in this case, on the new basis. The transition date, being also the date when the adjustments are applied, is January 01, 2021. Although the calculations can and will be made in arrears, the process of research should start before the transition date. The bank should be following IFRS in its own accounting from January 01, 2022 and have implemented all the system changes required before then.

The workload is biggest for the comparative year, 2021, as this year's figures will be published twice. Initially under the existing accounting framework as of December 31, 2021, and then again restated on an IFRS basis with the December 31, 2022 financial statements, where they will be included as the comparative figures. One complication is that the main adjustments take effect on the opening day of the comparative year, January 01, 2021 in this example, but cannot be processed until after the closure of 2021, as the December 31, 2021 statements will be prepared under the existing framework.<sup>1</sup>

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1 IFRS 1 requires that the first IFRS financial statements of the entity should include at least three statements of financial position, two statements of profit or loss and other comprehensive income, two statements of cash flows and two statements of changes in equity and related notes, including comparative information prepared on the same basis of accounting for all of the statements presented.



The basic process comprises (i) a research phase, (ii) decisions as to the policies, (iii) implementation of the changes, including any systems changes, and finally (iv) preparation of the financial statements under IFRS. The extent of the work will depend on the existing framework, but it is easy to underestimate the work required. The basic rule of IFRS is that the new policies need to be applied retrospectively back to origination of all assets and liabilities. There are some transitional reliefs, but these only apply to some items. As a consequence, it may be necessary to go back several years to recalculate some of the opening positions. It is important to document the processes and decisions.

Even though IFRS admits some exceptions, the most common challenges faced by a central bank transitioning to IFRS include the following:

- Fair value recognition of transactions with the government based on market conditions at origination;
- Application of IFRS 9 – Financial Instruments including the application of the effective interest methodology;
- Employee benefits such as recognition of pensions, gratuities, healthcare and other staff obligations – some of which may require actuarial valuations. Also requiring attention are staff loans when given at concessionary rates as these need to be accounted for at fair value on origination;
- Determining the appropriate treatment of transitional adjustments within equity and reserves. The central bank's legal framework may restrict its ability to create the necessary reserves required under IFRS;
- Buildings and other fixed assets as there is no transitional relief on these items and it will be necessary to apply the IFRS rules on their cost back to the original acquisition, which may be many years before the date of transition;
- Investment properties in cases where the central bank has buildings that they do not currently

occupy themselves and are made available to other tenants;

- Internally developed software as intangible assets include not only externally procured inputs but also internal costs of development such as staff costs.

Even though materiality may reduce the impact of the issues, it is necessary to consider them and demonstrate that they are immaterial. An additional major issue for central banks adopting IFRS is the treatment of foreign exchange gains and losses and the impact on distribution. Under IFRS the majority of foreign exchange gains and losses, both realized and unrealized, are included in the income statement and so into profit. Depending on the central banks law, this could result in unrealized gains being distributed, which is undesirable. Before publishing the first IFRS financial statements, it is necessary to put in place robust arrangement covering the non-distribution of unrealized foreign exchange gains, with a consequent distribution of any gains subsequently realized. The treatment of revaluation losses also needs to be considered.

The disclosures in the financial statements are extensive and need careful wording as they may have implications on policy operations. A central bank pursuing first time adoption of IFRS is advised to begin drafting the disclosures as early as possible and obtain senior management input and concurrence. This work can proceed in parallel with generating the actual numbers.

The external auditors should be involved at an early stage. It is helpful to have their views on proposed policy framework and disclosures during the project, rather than awaiting the final audit of the first IFRS statements. It is helpful to have the same auditors for the whole period of the transition. Changing auditors during the process may hinder the central bank's transition to IFRS as the different audit firms may have varying views on the policy choices and their application. This may involve a change in the rotation period for the auditors.

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## APPENDIX II.

# Loans to the IMF

A few central banks provide funding to the IMF in support of its lending operations. The following example may be considered to guide the development of such a note. (BCB)

### **Note X: Bank of Utopia's Loans to the IMF**

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In addition to quota subscriptions, various lending programmes are important sources of IMF financing. The Bank provides the IMF funding under the following arrangements:

#### **a) New Arrangements to Borrow**

The New Arrangements to Borrow (NAB) programme is used for loans if the IMF has a need for funds in excess of subscriptions from member countries. Utopia's total resource commitments under the NAB are SDR (000), unchanged from 2018. Bank of Utopia's loans to the IMF under the NAB at December 31, 2018 totalled SDR (000), or LC (000). The corresponding amount for 2018 was SDR (000) or LC (000). (NB)

#### **b) Bilateral borrowing agreement**

In 2017, the IMF and Bank of Utopia concluded a new bilateral borrowing agreement. Under the agreement, the IMF is provided with a borrowing facility in the form of a drawing arrangement of up to SDR (000). The agreement is part of a broader international effort to ensure the IMF sufficient resources to meet the borrowing requirements of member countries in times of crisis. This borrowing agreement has for the time being not been drawn on.

#### **c) Poverty Reduction and Growth Trust (PRGT)**

Utopia participates in the financing of the IMF's subsidised lending programme for low-income countries under two agreements. Utopia signed an agreement in January 01, 2000 to provide SDR (000). This facility has been fully drawn by the IMF, and the IMF will henceforth only make interest and principal payments on this facility. On January 01, 2010, Utopia signed a new borrowing agreement with the IMF for a further SDR (000). Utopia's commitments for future payments to the PRGT are thus limited to SDR (000). Loans to the PRGT at December 31, 2019 totalled SDR (000), or LC (000). The corresponding amount for 2018 was SDR (000), or LC (000). (BCB)

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## APPENDIX III.

# Currency Printing Costs: Other Accounting Options

As the standards do not apply specifically to this operation, it is important to show examples of other possible treatments. The following present three additional practices that may be appropriate in certain circumstances:

### Alternative #1

Under this alternative, production costs are recognized as an expense when incurred. In this case, all production costs are expensed when the notes are received (or invoiced). This approach works well if banknote production cost is either fairly uniform over time or not a material item on the Statement of Profit or Loss. It may also be warranted in cases where the banknotes are not retained in the vault for many years.

*Administrative expenses of currency in circulation are recognized in the income statement in the period received and recorded under Other Expenses. (BCB)*

### Alternative #2

Under this alternative, banknote production costs are recognized on the balance sheet similarly to a tangible asset (IAS 16) and amortized over an expected “useful life”. This approach smooths the production costs over time assuming that the benefit is received evenly while the note is “in circulation” in the public domain. Establishment of the “useful life” should be supported by the central bank’s own experience based on similar note issues or, if a different type of note, by assertions from industry experts.

*The costs of printing banknotes and minting coins, which have not yet been put into circulation, are initially recognized as assets at acquisition cost and subsequently amortized on a straight-line basis over 5 years and 10 years, respectively. (BOA)*

### Alternative #3

A combination of alternatives may be appropriate when a central bank has made a significant investment in a new note series of notes that are deployed to the market rapidly to replace an old series of notes. This approach can work well when releasing a new series of notes through a rapid one-time replacement program. The cost of notes used in the rapid replacement is amortized over the expected useful life of the new notes (IAS 16) and all other notes released over time to “maintain” the general quality of notes in circulation are either expensed as released (IAS 2 approach). This approach recognizes more properly the cost of a rapid replacement as an “investment” with benefits over a longer period. The issue with this focus is that it can add complexity in the process and requires clear delineation in the accounting policy as to when the one-time rollout ceases and the maintenance period begins.

*Issuing cost of banknotes and coins includes a component related to replacement of old notes that are already in circulation. The cost of the replaced ones is deferred and charged to the Statement of Profit or Loss over the period of their useful life. The unamortized cost is recorded as deferred replacement cost in the Statement of Financial Position. (MMA)*



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## APPENDIX IV.

# Currency in Circulation— Demonetization

When banknotes and coins are returned to the central bank, they are removed from currency in circulation. Depending on their condition or legal tender status, they are either sent for destruction, derecognition or held as fit notes in inventory under the central bank's control to be returned into circulation at a later date.

Some central banks will, for different reasons, demonetize specific series of banknotes, hence revoking the legal tender status. The following are some examples for such disclosures:

### “Demonetisation of currency” Bank of Uganda:

*Demonetisation is the process of revoking the legality of designated issues of notes or coins. The Bank may demonetise any of its banknotes and coins on payment of the face value under section 23 (3) of the Bank of Uganda Act provided that a notice of not less than fifteen days is given in the official gazette. The value of demonetised currency notes and coins that is not returned to the Bank is recognised as income in profit or loss and the liability to the public is extinguished.*

### “Notes and coins” Norges Bank:

*Notes and coins in circulation are recognised at face value when they are put into circulation and derecognised when they are withdrawn from circulation and no later than the expiry of the ten-year deadline for redemption, in accordance with Section 15 of the Norges Bank Act. Notes and coins are put into circulation at the time they are removed from a central bank depot and transferred to private banks. Notes and coins not redeemed by the ten-year deadline are recognised as income in profit or loss as other financial income/expenses. After the ten-year deadline, notes and coins may be redeemed and are then recognised as an expense on the same line in profit or loss.*

*Of notes and coins in circulation at December 31, 2018, krone 1,893m comprised withdrawn notes. This pertains to Series VII 100-krone and 200-krone notes, which from 31 May 2018 are no longer legal tender.*

### “Currency in Circulation” Central Bank of Bosnia and Herzegovina:

*The Bank administers the issue and withdrawal of domestic banknotes and coins. The corresponding liability from the issued currency in circulation is recorded in the statement of financial position. When currency is withdrawn from circulation, it is recognized as a liability as part of currency in circulation, until the formal date of withdrawal. Any outstanding amount not withdrawn, after the formal due date, is recognized as income.*



## APPENDIX V.

# Associates, Subsidiaries and Transactions with Non-Controlling Interests

### ■ *Business Context*

The following is an example drawn from SARB of a more comprehensive disclosure with a central bank that include interests in other entities. As this is not a typical circumstance, it has not been included in the

model statements. Information on interests in other entities may also be disclosed under the related party information note.

### ACCOUNTING POLICY – ASSOCIATES, SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS

#### *Subsidiaries*

Subsidiaries are all entities over which the Bank of Utopia has control. The Bank of Utopia controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank of Utopia.

The acquisition method of accounting is used to account for subsidiaries by the Group. Investments in subsidiaries are stated at cost less allowance for impairment losses where appropriate and include loans to subsidiaries with no repayment terms where these are considered part of the investment in subsidiaries.

Intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Bank.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity respectively. Total comprehensive income of subsidiaries is attributed to the Bank of Utopia and to the non-controlling interest, even if this results in the non-controlling interests having a deficit balance.

#### *Associate*

An associate is an entity over which the Group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights.

An investment in associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in OCI of the investee in OCI. Dividends received or receivable from an associate are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in this entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the equity accounted investee have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of an equity-accounted investment is tested for impairment in accordance with the Bank's accounting policy regarding recognition of impairments.

## ACCOUNTING JUDGEMENTS AND ESTIMATES – ASSOCIATES, SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Details about fair value techniques are included in Note 22.

## DISCLOSURE – ASSOCIATES, SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS

### *a) Investment in subsidiaries*

The subordinated loan to the South African Bank Note Company (SABN) of 0.0 billion (2018: 0.0 billion) bears no interest and has no fixed terms of repayment. No repayments were made during the year (2018: 0.0). The SARB may demand repayment of the loan provided the subsidiary's assets exceed its liabilities. When recalled, the subsidiary has the option to convert the loan to share capital. The loan is included in the books of the subsidiary as a separate category of equity and is thus treated as an addition to the SARB's investment in subsidiary. The contribution to the Group profit attributable to the parent (pre elimination of intercompany transactions) is as follows:

	Authorized and issued capital		Group		Central Bank	
	Number of shares		2019	2018	2019	2018
	'000	% held	'000	'000	'000	'000
Corporation for public deposits						
Subsidiary company						
– Share capital						
– Subordinated loan						
Total investment in subsidiaries						

### *b) Investment in associate*

	Authorized and issued capital		Group		Central Bank	
	Number of shares		2019	2018	2019	2018
	'000	% held	'000	'000	'000	'000
Associate carrying value						
Profit attributable to the group						
Carrying value of the investment in associate						

### ***c) Transactions with non-controlling interests***

The South African Mint holds a 60.00% interest in Prestige Bullion. Prestige Bullion distributes and sells bullion Krugerrand coins to local and international markets. The South African Mint is responsible for the manufacturing while the marketing and distribution of the coins is done by Rand Refinery Proprietary Limited (Rand Refinery). Rand Refinery has a 40.00% interest, and therefore holds a non-controlling interest in Prestige Bullion.

	Group		Central Bank	
	2019	2018	2019	2018
	'000	'000	'000	'000
Profit attributable to non-controlling interest				
Accumulated non-controlling interest at year-end				
Dividends paid to non-controlling interest				