



BANCO CENTRAL DO BRASIL

PROJECT

Adherence to International Accounting Rules -- IASB

UNIT IN CHARGE:

DEAFI – Financial Administration Department

PROJECT DESCRIPTION:

The Banco Central do Brasil (BCB) passed, by BCB Vote no. 235/2002, the adherence of its accounting procedures to the best international practice. The National Monetary Council – CMN, when ratified this understanding by CMN Vote no. 53/2002, determined adoption of rules issued by the International Accounting Standards Board – IASB, observing, however, the practice of other central banks and opinions on the issue held by international organizations (for instance, BIS, World Bank, CEMLA).

In order to make possible disclosing financial statements according to international accounting standards, a comprehensive revision of basic accounting procedures is necessary, involving internal discussions on the issue with departments managing asset and liability operations, the accommodation and development of computer systems and internal accounting rules, as well as rearranging and preparing Accounting Department staff, including the training needed to maintain the standards and to follow up their further developments.

The necessary adaptation of computer systems, the training of Accounting Department and the establishment of an internal study group, the acquisition of basic bibliography and the subscription of Fasb's and Iasb's publications both granting access to their electronic sites; the training of employees of the Accounting Department and operations Management Units – are currently under way. However, the Project foresees, in addition, the following actions:

- a) Reviewing procedures of other central banks/ international organizations:
 - review the information available on the Internet;
 - consultation through e-mail (questionnaires);
 - clarification over the telephone on doubts related to responses received;
 - conduction of technical visits to central banks, selected by their importance and degree of adherence to international accounting rules, and international organizations.
- b) Reviewing the Banco Central do Brasil Accounting Rules Structure:
 - revising, regarding adherence to international accounting rules:



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- The Financial Administration Services Manual – MSF;
- The Chart of Accounts – PGC;
- The financial statements.

SCHEDULE ACTIVITY	STARTING DATE	CLOSING DATE
Group of international accounting studies	5/1/2002	12/31/2003
Surveying other central banks procedures	8/4/2003	8/29/2003
Assessing, together with the consulting firm Ernst & Young, all BCB's operations and all rules issued by IASB, and preparing an application study of such rules to the Central Bank of Brazil operations.	3/1/2004	5/25/2004
Adapting BCB's accounting schemes, manuals, and managerial and accounting systems.	6/1/2004	12/3/2004
Starting to prepare BCB's financial statements according to IASB	6/30/2004	---
Publishing of the first complete set of comparative financial statements	---	12/31/2006

EXPECTED BENEFITS

- Establishment of a sound accounting conceptual structure;
- Increased comparability of BCB's financial statements with those of other central banks;
- Greater transparency and credibility of financial statements;
- Earning “low risk” in the International Monetary Fund – IMF Safeguards Assessment Report;

ASSESSMENT INDICATORS

- IMF assessment in Safeguards Assessment Report;
- Financial Administration Services Manual – MSF, updated according to IASB;
- Opinion of independent auditors.



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JUSTIFICATION

Considering that accounting is the main language of communication used by economic agents to assess investments and risk of their transactions, the use of different accounting rules has caused difficulties in the understanding and comparability of economic and financial information at the international level. This has strengthened the need for harmonizing accounting rules in entities that, as the BCB's, are interested in having their accounting statements adequately assessed abroad. Therefore, one expects that:

- More precise and easily understood financial information may facilitate financial analyses and therefore increases data reliability and enable access to capital at lower costs;
- Central BCB's statements may function as an accounting reference to financial institutions supervised by it;
- Having its financial statements prepared under international accounting standards, the BCB may demand from financial institutions at least the same standards of transparency and reliability.

According to KENNETH SULLIVAN, in *Transparency in Central Bank Financial Statement Disclosures*:

“In the absence of a well-developed set of generally accepted accounting practices (GAAP) within a country, the published reports of authoritative institutions are used to determine what is best practice. By definition, central bank disclosures make a material contribution to what is accepted as the nation’s GAAP (...). Transparent central bank financial statements make it easier for bank supervisors to demand a similar level of disclosure from the commercial banks they supervise.”

PRODUCT

One expects, at the completion of the project, that:

- the Accounting Department staff will be able to adapt the BCB's accounting rules to the best international practice, follow its developments and promote the necessary improvements;
- the BCB's accounting procedures to comply with international rules;
- the BCB's financial statements may be disclosed under international standards from 12.31.2006 onwards.



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APPLICATION OF THE PRODUCT

The BCB's accounting system is a source of information for different Operating Units and its Financial Statements count with internal and external stakeholders, such as: the BCB's Board of Directors, the International Monetary Fund – IMF, the World Bank, the Ministry of Finance/National Treasury, Federal Audit Court – TCU and the National Congress.