

CHAPTER 5
BANGKO SENTRAL NG PILIPINAS' FINANCIAL REPORTING:
CONVERGENCE OF LEGAL FRAMEWORKS AND RELEVANT STANDARDS¹

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1. Introduction

The Bangko Sentral ng Pilipinas (BSP), like other central banks, was established through its legal framework. Its operational independence and functions, as embodied in its Charter, have increased and evolved since its creation to meet the needs for economic development of the Philippines. Having broad functions that contribute greatly to the economic advancement of the country, BSP requires accountability and transparent reporting, especially with respect to the monetary value of the BSP's economic and financial activities. These requirements could be addressed partly by financial reporting.

Laws relative to concerns on central banking activities and economic development are passed and enacted as required by the times and public policy to address internal and external forces affecting the country, during the particular period or periods. From the decentralized central banking functions, today, the task of preserving the value of the peso remains a key responsibility of the BSP, focusing on the conduct of monetary policy and participating in the building of a sound and stable banking and financial system. It is through these roles that the BSP contributes to the delivery of the stability of the Philippine economy.³

On the other hand, financial reporting standards govern the guidelines for financial reporting of an entity. These standards are promulgated and established by central banks (by group or individual), or by the concerned government/jurisdiction. Some of the standards are promulgated by standards-setting body. Today, the IFRS have become the de facto global

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As an exploratory paper, this may be subject to further enhancement. Readers/interested parties may communicate/send comments and suggestions, copy furnished the author, with The SEACEN Centre, Level 5, Sasana Kijang, Bank Negara, Malaysia, 2 Jalan Dato Onn, 50480 Kuala Lumpur, Malaysia.

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³ Bangko Sentral ng Pilipinas, (2003), "Money and Banking in the Philippines: Perspective from the Bangko Sentral ng Pilipinas," p. 13.

standard for financial reporting.⁴ However, literature regarding IFRS for central banks (CBs) classifies them, which have far different functions and objectives, as regular banks⁵ or financial institutions, the essence of existence for which are to gain profit or to engage in profitable activities. Meanwhile, IFRS has established set of standards for other business activities because of the peculiarities of their activities and uniqueness of the nature of their transactions.

Both the legal frameworks and financial reporting standards keep evolving as dictated by “the felt necessities of the times, the prevalent moral and political theories and the intentions of public policy,”⁶ adding to it in the light of international trade, the intentions of international and global accords.

Based on experience, the application and implementation of both frameworks sometimes results in different and contrasting impact on the central bank of the country. The adoption and application of certain standards set by standard-setting bodies other than the BSP (then CBP) may not go along with the reporting design and conduct to carry out BSP’s objectives and functions in terms of implementing the legal frameworks for which the monetary authority is established. Legal frameworks and financial reporting standards are at times not congruent with each other, such that in actual application, technical difficulties are encountered by the BSP in implementing or trying to comply with both frameworks. Both have also evolved through time.

2. Functions of Central Bank: The Philippines Experience

This part discusses the evolution of central banking activities/functions in the Philippines. These functions prevalent in a particular period serve as a way of classifying the central bank into three major stages or types in the Philippine settings. This shows the evolution of central banking from the decentralized form to the type of central bank that is solely in charge of monetary policy as experienced in the Philippines.

According to former Central Bank Governor, Jose B. Fernandez (1984-1990) - “*The law is the epitome of human experience and the formal expression of public policies and societal goals,*”⁷ which is an accurate expression that central banking laws should be able to clearly articulate. This statement is also applicable to the financial reporting frameworks or

⁴ Paul Pacter, (2015), “Financial Reporting Standards for the World Economy,” *IFRS Progress Report*, June.

⁵ The term “Bank, Ordinary Bank, and Regular Bank” is used alternatively to refer to banking institutions other than central bank or central monetary authority.

⁶ *Ibid.* 5., p. 13.

⁷ Bangko Sentral ng Pilipinas, (2010), *Banking Laws of the Philippines, Book 1: The New Central Bank Act, Annotated*, p. 1.

standards. The central banking laws direct the evolution of the central banking functions. As earlier mentioned, laws are enacted and implemented as required by the times and the intentions of public policy in addressing internal and external forces affecting the country relative to the concern on central banking activities and economic development during the particular period or periods. While the law provides independence to the central bank or monetary authority, it also stipulates the responsibility and accountability required for such independence. Such independence is conferred to the BSP to ensure that it is able to anticipate and respond to the challenges of a more globalized economy.⁸ The BSP's responsibility and primary objectives are explicitly provided in its Charter.

Central banking functions in the Philippines have gone through various changes before reaching its present status of being a monetary authority. But even in this present status, it continues to evolve to be more responsive in addressing internal and external forces affecting the country relative to the concern on central banking activities and economic development. These stages could serve as bases for classifying the BSP (then CBP) into three major types, namely:

- i. BSP/CBP with decentralized banking functions;
- ii. BSP/CBP with fiscal and monetary functions, and
- iii. BSP/CBP with only monetary functions.

This categorization is based on the functions, objectives and responsibilities of the CB according to the prevailing public policy and the country's development during those times.

The decentralized central banking experience of the Philippines covers the period prior to the creation of the CBP in 1949, when there was no formally instituted central bank in the Philippines attending to fiscal and monetary functions. This period covers: (i) The Spanish Period (1521-1898), (ii) The American Period (1899 – 1941), (iii) The Japanese Occupation (1942 – 1945); and (iv) The Philippine Republic (1945 – 1949). Within these periods, central banking in the Philippines can be considered as decentralized and mixed with commercial activities. Various authorized institutions attend to fiscal and monetary activities. Some banks were authorized to issue bank notes. The central banking function of conserving the exchange value of currency and control of coins in circulation was undertaken, at certain times, by the colonial government through prohibition on the importation and exportation of coins.⁹

⁸ Ibid. p.14.

⁹ Ibid. p. 2.

2.1 Central Banking Decentralized Functions

2.1.1 The Spanish Regime (1521 – 1898)

During the Spanish rule, various kinds of money were circulating in the Philippines which resulted to widespread confusion among traders and their counterparties. Counterfeit money easily proliferated and economic transactions were not easy to reconcile. In 1861, minting of coins has become a central banking activity. By 1876, the coins minted in Manila, along with imported coins from Mexico, Spain and other South American countries made up the country's money supply. The supply was also increased by the printing of paper currency by the then Treasurer of the Philippine Islands.¹⁰

While there was no formal central bank during this period, the colonial government functioned as a central bank in some aspects. It eventually prohibited free coinage and free importation or exportation of money into and out of the country. Other than the accepted money supply, banknotes were issued by the El Banco Español Filipino de Isabel. The prohibition on the importation and exportation of coins by the colonial government is a crucial central bank function of conserving the exchange value of its currency. By the end of the Spanish rule, the money supply in the country was controlled.¹¹

However, there was lack of supervision and regulation of banking business. Banks were then covered by the general provisions of the Spanish Civil Code of 1889 and the Code of Commerce.¹²

2.1.2 The American Period (1899 – 1941)

In 1900, the central banking role during this period concentrated on resolving the impact of various currency circulating and the two currency system in the country. Important measures were taken to supervise and regulate the growing business of banking in the Philippines. Establishing a standard value, providing a coinage system, and setting a gold standard system followed in 1903.¹³ The Philippine National Bank (PNB) was established to be a government institution for the purpose of expanding banking services in the country. It also provided long-term loans to agricultural and industrial borrowers, besides, granting short-term loans to merchants.¹⁴

¹⁰ Ibid.

¹¹ Ibid.

¹² Ibid.

¹³ Ibid. p. 3.

¹⁴ Ibid. p. 4.

Carrying out of central banking functions was still decentralized during this period, although, there were already moves to establish the country's central bank. The supervision over banking institutions was then handled by the Bureau of Banking. The PNB had the privilege of issuing bank notes and functioning as a depository bank of government funds. The Bureau of Insular Treasury ensured the efficient implementation by the Insular Government of its responsibility of currency circulation and maintaining the parity between the Philippine peso and the United States dollar.¹⁵ During the Commonwealth period, the Philippine's monetary system was overseen by the Department of Finance and the National Treasury.¹⁶

2.1.3 The Japanese Occupation (1942 – 1945)

In the three years of Japanese occupation, military peso notes brought in from Tokyo were put into circulation for which everyone was compelled to recognize and use. Only Japanese and Filipino banks were allowed to operate.¹⁷

The Nampo Kaihatsu Kinko opened a Manila branch in 1942 and acted as the Japanese Government's fiscal agent in the Philippines. It performed some functions of a central bank, such as: (i) the power to issue military notes; (ii) the power to take custody of the clearing balances of banks; and (iii) even receive deposits from other operating Philippine banks.¹⁸

2.1.4 The Philippine Republic (1945 – 1949 Prior to CBP)

When the American liberation forces reoccupied Manila in February 1945, every domestic bank operating during the Japanese occupation found it impossible to reopen for business. Banks could not meet their obligations in Philippine currency since "Mickey Mouse" money, enemy war notes, bonds and obligation of the Japanese-sponsored Republic and balances with Japanese banks were worthless. The banks petitioned the Government for aid.¹⁹

The Rehabilitation Finance Corporation, which absorbed the government-owned Agricultural and Industrial Bank, was created and provided with financial aid for purposes of rehabilitating war-ravaged Philippines.²⁰

¹⁵ Ibid. p. 4.

¹⁶ Ibid. p. 5.

¹⁷ Ibid.

¹⁸ Ibid. p. 6.

¹⁹ Ibid.

²⁰ Ibid.

During this time, the familiar instruments of central banking policy used in other parts of the world were not applicable to the problems of the Philippines, which then had a relatively small agricultural economy still in the early stages of development and which was particularly vulnerable to disturbances in international trade. There was also an insight that developments in monetary theory and in the techniques resorted to in other countries, particularly those involving the use of monetary control instruments, were not yet systematically embodied in Philippine banking legislation. Business and government trends fostered domestic consciousness that monetary and financial control should be centralized in a single agent for fiscal responsibility and authority – a central bank.²¹

During the term of then President Manuel A. Roxas, a Commission was created to study the country's financial, monetary and fiscal problems. The Commission reported to Congress that domestically-owned banks were disadvantaged under the then banking laws, that the monetary system in place was unsuitable for an independent Philippines and that there was a need to conserve foreign exchange. Further, the report recommended a shift from the dollar exchange standard to a managed currency system, proposing that a central bank was necessary to implement the proposed shift. It also outlined financial, monetary, fiscal and trade programs for the recovery and development of post-war and newly independent country.²²

The creation of a central bank was regarded as a crucial step to curb the inflationary effect of extensive war damage payments made by the United States to the country. It would also confine borrowing to domestic sources through the creation of a local bond market, and correct the defects in the currency system, thus, the master plan for the reconstruction and rehabilitation of the Philippine economy.²³

The legal framework of central banking continues to evolve to keep pace with the demands of the economy and to introduce reforms in the banking industry that may be needed, such as the conscious measure to provide demarcation between the monetary and fiscal authorities of the Government and the reduced role of the latter in the deliberative formulation of monetary policy.²⁴

²¹ Ibid. p. 7.

²² Ibid. p. 8.

²³ Ibid. pp.8 – 9.

²⁴ Ibid. p.9.

2.2 Central Banking Fiscal and Monetary Functions Period (1949 – 1993)

By June of 1948, the Republic Act No. 265, the Central Bank Act of 1948 was enacted, creating the then Central Bank of the Philippines (CBP). The CBP, starting its operation on 3 January 1949, was a definite step toward national sovereignty. Over the years, changes were introduced to make the charter more responsive to the needs of the economy.²⁵

On 29 November 1972, Presidential Decree (PD) No. 72 adopted the recommendations of the Joint IMF-CB Banking Survey Commission which made a study of the Philippine banking system. The Commission proposed a program designed to ensure the system's soundness and healthy growth. Its most important recommendations were related to the objectives of the Central Bank, its policy-making structures, scope of its authority and procedures for dealing with problem financial institutions.²⁶

The CBP was constituted as a government-owned institution in line with the trend towards state ownership and/or control of central bank. Its responsibility was to administer the monetary and banking system. Besides its objectives to maintain monetary stability in the country and to preserve the international value of the peso and convertibility of the peso into other freely convertible currencies, it had to promote a rising level of production, employment, and real income in the Philippines.²⁷

2.3 Central Banking Monetary Authority Period (1993 – Present)

Subsequent changes sought to enhance the capability of the Central Bank, in the light of a developing economy, to enforce banking laws and regulations and to respond to emerging central banking issues. Later, PD 1801 designated the CBP as the central monetary authority (CMA). Years later, the 1987 Constitution adopted the provisions on the CMA from the 1973 Constitution that were aimed essentially at establishing an independent monetary authority through increased capitalization and greater private sector representation in the Monetary Board.²⁸

Subsequently, RA No. 7653, the New Central Bank Act was enacted and took effect on 3 July 1993, and introduced changes in the role and mandate of the country's monetary authority. The law provides for the establishment of an independent monetary authority, with

²⁵ Ibid.

²⁶ Ibid.

²⁷ Ibid. p. 10.

²⁸ Ibid.

the maintenance of price stability as its primary objective. This objective was only implied in the old Central Bank Charter.²⁹

3. Legal Frameworks

This part affirms the obvious implication of the legal framework on the essence of central bank's existence – its functions, roles, objectives and responsibilities – and its evolution. It further shows that the operations and objectives of the CB are bestowed and guided by its legal frameworks that could not be put aside but must be upheld, even in the midst of the requirements of any international standard to guide its reporting process and establish the distinction between CBs and regular banks.

Central banking in the Philippines has passed through the stages as might have been similarly experienced by other CBs. Obviously, these functions, roles, objectives and responsibilities of the CBs are dictated by their country's legal frameworks, explicit or not, on the laws on public, social and economic policy enacted/passed during those times to attain financial, social order and economic development. These same legal frameworks can be used in categorizing CBs as another set of economic activities far distinct from ordinary banks, financial institutions and other commercial institution, as such.

3.1 Philippine Central Banking Laws

Before the creation of the CBP, central banking functions were decentralized. During the said periods, the central banking functions are carried out by various authorized bodies. These periods cover the span from the Spanish Regime to the Pre-CBP (1521 – 1949, prior to CBP). Since the focus of this report is on the period of CBP and BSP, no discussion of the laws and pronouncements relevant to central banking and its evolving functions during those periods are presented herein.

In the later part of decentralized periods, the climate in the banking and financial industry can be described by the following statements - "Banks then did business independently of each other. There was no coordination or agreement with respect to basic policies and there was little regard to the effect of their decisions on the general economy. Such a banking culture was repugnant to the struggles of a developing economy. Hence, there was a need for an institution to administer both the banking and monetary systems."³⁰

²⁹ Ibid.

³⁰ Ibid. p. 9.

Institutional central banking in the Philippines started with the initial operation of the CBP on 3 January 1949, by virtue of RA No. 265. Following are the significant central banking laws which directed the evolution of CBs functions, roles and responsibilities:

Laws	Purpose / Provision
RA No. 265 or the Central Bank Act of 1948	<p>The real significance of law is the transfer of the administration of the monetary and banking system from the Treasury and the Bureau of Banking to a central bank having much broader powers than either of the bureaus.³¹</p> <p>The CBP was constituted as a government-owned institution in line with the trend towards state ownership and/or control of central banks. Its responsibility was to administer the monetary and banking system and its objectives were: (i) to maintain monetary stability in the country; (ii) to preserve the international value of the peso and convertibility of the peso into other freely convertible currencies; and (iii) to promote a rising level of production, employment, and real income in the Philippines.³²</p>

Through time, RA No. 265 underwent several amendments. Subsequently, laws were passed to enhance the capability of the CBP, in the light of a developing economy, to enforce banking laws and regulations, and respond to emerging central bank issues.³³

The following are the pertinent laws and their relevant features:

Pertinent Laws	Relevant Features
Presidential Decree (PD) No. 72	Amending the responsibilities and objectives of the CBP; Providing the duty of the CBP to use the power under RA No. 265, as amended, to achieve its objectives. ³⁴
PD No. 1007	Amending the responsibility and powers of the CBP/Monetary Board (MB) during insolvency of the Bank. ³⁵
PD No. 1283	Granting the CBP exclusive responsibility and authority over the banking functions and operations of cooperative banks. ³⁶
PD No. 1827	Granting the CBP the power to compromise, condone or

³¹ Ibid.

³² Ibid. p. 10.

³³ Ibid.

³⁴ The LAWPHiL Project: Arellano Law Foundation, Available at: http://www.lawphil.net/statutes/presdecs/pd1972/pd_72_1972.h

³⁵ The LAWPHiL Project: Arellano Law Foundation, Available at: http://www.lawphil.net/statutes/presdecs/pd1976/pd_1007_1976.h

³⁶ The LAWPHiL Project: Arellano Law Foundation, Available at: http://www.lawphil.net/statutes/presdecs/pd1978/pd_1283_1978.h

Pertinent Laws	Relevant Features
	release, in whole or in part, any claim of or settled liability to the Bank, regardless of the amount involved, under such terms and conditions as may be imposed by the MB to protect the interests of the Bank ³⁷ is one of the features of the PD.
PD No. 1937	Amending the power of MB to appoint a Conservator and determination of fines, among others. ³⁸
Batas Pambansa (BP) Blg. 67	Granting the MB the following power, among others, to: <ul style="list-style-type: none"> • Prepare and issue rules and regulations as it considers necessary for the effective discharge of the responsibilities and exercise of assigned powers; • Direct the management, operations, and administration of the CBP and issue such rules and regulations as it deemed necessary or convenient for the purpose; and • Amend the power to impose administrative sanctions on banks.³⁹
PD No. 1801	Designating the CBP as the central monetary authority (CMA). ⁴⁰

Consequently, RA No. 7653, the New Central Bank Act was enacted on 14 June 1993. The New Central Bank Act took effect and the BSP started its operation on 3 July 1993. The law provides for the establishment of an independent monetary authority to be known as the Bangko Sentral ng Pilipinas, with the maintenance of price stability explicitly stated as its primary objective. This objective was only implied in the old Central Bank Charter. The law also gives the BSP fiscal and administrative autonomy which the old Central Bank did not have. The said Act embeds the 1987 Constitution's adoption of the provisions on the CMA from the 1973 Constitution that were aimed essentially at establishing an independent monetary authority through increased capitalization and greater private sector representation in the Monetary Board.⁴¹

³⁷ The LAWPHiL Project: Arellano Law Foundation, Available at: http://www.lawphil.net/statutes/presdecs/pd1981/pd_1827_1981.h

³⁸ ChanRobles Virtual Law Library, Available at: [Lawlibrary.chanrobles.com/presidentialdecrees/20_presidential decrees.php?id=1993](http://lawlibrary.chanrobles.com/presidentialdecrees/20_presidential_decrees.php?id=1993)

³⁹ ChanRobles Virtual Law Library, Available at: laws.chanrobles.com/index.php?option=com_content&view=article&id=67501

⁴⁰ The LAWPHiL Project: Arellano Law Foundation, Available at: http://www.lawphil.net/statutes/presdecs/pd1981/pd_1801_1981.h

⁴¹ Bangko Sentral ng Pilipinas, (2010), Banking Laws of the Philippines, Book 1: The New Central Bank Act, Annotated, p. 10.

The New Central Bank Act had enormously changed the role and mandate of the country's independent central monetary authority, with the maintenance of price stability explicitly stated as its primary objective.

3.2 Establishing the Perspective

Considering the governing Charter (comparable to the Articles and By-Laws of commercial entities) and pertinent laws of the central bank in the country, an area for argument can be raised, e.g. - "whether a CB (or a Federal Reserve Bank of some States under a Federal Government set-up) can be classified as a Bank, similar to a bank engaging in commercial activities." Given the functional evolution, the essential roles, responsibilities and objectives, and the governing legal framework of the BSP's existence, is it proper to classify BSP, or any CBs, in the same footing with banks and financial institution primarily established for commercial activities and cooperative activities?

In comparing the BSP with banking institutions engaged in business in the Philippines, we can come up with a number of great differences between them, from the documents creating these entities, their objectives, roles and responsibilities to their stakeholders and the public as a whole. Among others, some of the general differences are as follows:

Basis	BSP	Banks
Founding Documents	RA No. 7653, The New Central Bank Act- Promulgated by the Legislative Branch (the House of Representatives and the Senate) of the Government; Defines the responsibility and objectives of the BSP; and Government-owned	Articles of Incorporation and By-Laws - Executed by the incorporators; Provides the purpose and policy of the corporation; and Privately-owned.
Governing/Regulating Documents	RA No. 7653, The New Central Bank Act- The Charter itself and the 3 Independent Branches of the Government can look into the activities of the BSP.	RA No. 8791, The General Banking Law of 2000 - The regulator/s: BSP, Securities and Exchange Commission (SEC), Insurance Commission and other bodies pursuant to relevant laws.

Basis	BSP	Banks
Functions	Central monetary authority (CMA) – an independent and accountable body in the discharge of its mandated responsibilities concerning money, banking and credit. ⁴²	Financial intermediation; serves as bridge in the money supply creation process; and undertake the payment systems process. ⁴³
Objectives	To maintain price stability conducive to a balanced and sustainable growth of the economy; and To promote and maintain monetary stability; and To maintain the convertibility of the peso. ⁴⁴	To mobilize financial resources and allocating them to those who can put these resources to best use; To be responsibly involve in the money supply creation process; and To be responsibly involve in the payment system process with certainty and safety. ⁴⁵
Roles	Provide policy directions in the areas of money, banking and credit; Undertake supervision over the operations of banks and exercise such regulatory powers as provided by its Charter and other pertinent laws over the operations of quasi-banks and institutions performing similar functions. ⁴⁶	Contribute in providing a banking environment conducive to sustained development of the national economy and fiduciary nature of banking industry. ⁴⁷
Economic Activities	Central banking is a monopoly of the BSP in the country; geared towards regulation of the banking industry.	Commercial banking is not a monopoly of a single entity; geared towards profit or cooperative activities.
Business Relation with Public	Generally, the BSP does not transact with the public.	Banks deals with the public.

These are just some of their underlying differences. If we look into the specific activities and transactions of the BSP, there are economic activities that are unique to CMA that could not be found in banks, such as minting and printing of currency coins and notes, accumulation of international reserves and gold operation, among others. These differences

⁴² Ibid, p. 12.

⁴³ Ibid. pp. 12-13

⁴⁴ ibid.

⁴⁵ Ibid. pp. 13-15.

⁴⁶ ibid. p. 18

⁴⁷ ibid, p. 12

are further discussed in the topic on financial reporting frameworks and issues between legal and financial reporting standards.

A bank is defined as an organization that accepts deposits, issue loans, pays checks and performs related services for the public. Banks act not only as financial and credit intermediaries between the suppliers of funds and the users of funds but they also collect funds through borrowings in the checking accounts, savings accounts, time deposits, short-term borrowings from other banks, and from equity capital. The business model of banks comprise the seeking of profits by reinvesting these funds in longer-term assets.⁴⁸

The General Banking Law of 2000 provides a brief and simple definition of the term “Banks” - classifying banks in order that each class can have its own niche or service orientation, which are stated as follows:

“Banks” shall refer to entities engaged in the lending of funds obtained in the form of deposits.

Banks shall be classified into:

- (a) Universal banks;
- (b) Commercial banks;
- (c) Thrift banks, composed of: (i) Savings and mortgage banks; (ii) Stock savings and loan associations; (iii) Private development banks, as defined in RA No. 7906 (the Thrift Banks Act);
- (d) Rural banks, as defined in RA No. 7353 (the Rural Banks Act);
- (e) Cooperative banks, as defined in RA No. 6938 (the Cooperative Code);
- (f) Islamic banks as defined in RA No. 6848, the Charter of Al-Amanah Islamic Investment Bank of the Philippines; and
- (g) Other classifications of banks as determined by the Monetary Board of the BSP.”⁴⁹

⁴⁸ Thomas P. Fitch, (2006), Dictionary of Banking Terms, 5th Edition, pp. 39-40.

⁴⁹ Bangko Sentral ng Pilipinas, (2011), Banking Laws of the Philippines-Book II: The General Banking Law (Annotated), p. 25.

The role and mandate of the BSP has expanded and become complicated. At present, BSP's objectives and main activities are as follows:

- **Price Stability**
 - Managing inflation and price fluctuation at an acceptable target levels that would create a climate/environment conducive to a balanced and sustainable growth of the economy.
 - BSP is uniquely qualified to promote price stability because of its ability to influence the amount of money of the country, thereby influencing the prices of goods and services.

- **Financial Stability**
 - Formulating and implementing policy in areas of money, banking and credit.
 - Supervising and regulating banks and quasi-banks, including their subsidiaries and affiliates engaged in allied activities.

- **Efficient Payments and Settlements**
 - BSP owns and operates the Philippine Payment and Settlement System, or PhilPass.
 - PhilPass is a real time gross settlement system wherein both processing and final settlement of fund transfer instructions can take place continuously in real time.

- **Also performs the following activities, all of which relates to its status as the Republic's central monetary authority:**
 - Liquidity management
 - Currency issue
 - Lender of last resort
 - Financial supervision
 - Management of foreign currency reserves
 - Determination of exchange rate policy⁵⁰

The International Accounting Standard Board (IASB) or the Financial Accounting Standard Board (FASB) can look into these angles of differentiation and convergence of the legal frameworks with the financial reporting standards in contemplating to update/improve the existing financial reporting standards.

⁵⁰ Bangko Sentral ng Pilipinas, (2010), Banking Laws of the Philippines-Book I: The New Central Bank Act (Annotated), p. 19-23.

4. Financial Reporting Frameworks

This section tackles the financial reporting standard setting process, the historical evolution of the financial reporting of the BSP, and reporting frameworks adopted by the BSP. The uniqueness and complexity of BSP transactions and activities are also presented here.

4.1 Philippine Financial Reporting Standards Setting Body⁵¹

The setting process of financial reporting standards in the Philippines is undertaken by the Financial Reporting Standards Council (FRSC), successor of the then Accounting Standard Council (ASC). The FRSC was established by the Board of Accountancy (BOA or the Board) in 2006, under the Implementing Rules and Regulations of the Philippine Accountancy Act of 2004, to assist the Board in carrying out its power and function to promulgate accounting standards in the Philippines. The FRSC's main function is to establish generally-accepted accounting principles in the Philippines.

The ASC was created in November 1981 by the Philippine Institute of Certified Public Accountants (PICPA) to establish generally-accepted accounting principles in the Philippines. The FRSC carries on the decision made by the ASC to converge Philippine accounting standards with international accounting standards issued by the International Accounting Standards Board (IASB).

The FRSC consists of a Chairman and members who are appointed by the BOA, and includes representatives from the Board of Accountancy (BOA), Securities and Exchange Commission (SEC), Bangko Sentral ng Pilipinas (BSP), Financial Executives Institute of the Philippines (FINEX), Commission on Audit (COA) and PICPA. The FRSC has full discretion in developing and pursuing the technical agenda for setting accounting standards in the Philippines. Financial support is received principally from the PICPA Foundation.

The FRSC monitors the technical activities of the IASB and invites comments on exposure drafts of proposed IFRSs as these are issued by the IASB. When finalized, these are adopted as Philippine Financial Reporting Standards (PFRSs). The FRSC similarly monitors issuances of the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, which it adopts as the Philippine Interpretations–IFRIC. PFRSs and Philippine Interpretations–IFRIC that are approved for adoption are submitted to the BOA and PRC for approval.

⁵¹ “About FRSC and PIC,” Available at: www.picpa.com.ph/frsc-about-us-0

The FRSC formed the Philippine Interpretations Committee (PIC) in August 2006 to assist the FRSC in establishing and improving financial reporting standards in the Philippines. The role of the PIC is principally to issue implementation guidance on PFRSs. The PIC members are appointed by the FRSC and include accountants in public practice, the academe and regulatory bodies and users of financial statements. The PIC replaced the Interpretations Committee created by the ASC in 2000.

4.2 BSP Financial Reporting Frameworks

The financial reporting process of the BSP has evolved along with the evolution of the accounting standard process in the Philippines. Along with the continuous evolution of the BSP's functions as defined by the legal frameworks, its financial reporting arrangements have also kept evolving. While the basic importance of financial reporting remains, its conventions and standards have also evolved through time, mainly due to internal and external factors, such as the expanding role of the BSP, and the convergence and evolution of the international accounting standards, among others.

Review of the then CBP and BSP's Accounting Manual, Chart of Accounts and prevailing transactions showed that accounting practices were patterned from what were found in actual business practices, mostly based on the accounting practices and principles developed by the United States of America, the Generally Accepted Accounting Principles or US GAAP. This is not surprising since the creation of the CBP was during the American occupation. This practice continued even after the PICPA organized the ASC in 1981. The ASC formalized the standard-setting process in the Philippines.

While the Philippine accounting standards have changed based on the International Accounting Standards Committee (IASC) in 1996 to what is now commonly known as the International Financial Reporting Standards (IFRS) in 1997, the BSP, which replaced the then CBP in 1993, also decided to shift to IASC's promulgated Accounting Standards only in 2005. However, the treatment of the "Revaluation of the International Reserves (RIR)" account was revised only 5 years later in 2010, not for compliance with the IFRS, but with the provision of the BSP's Charter. This is a clear exemplification that the full adoption of IFRS is not feasible for the BSP as full observance of the financial reporting standards may run counter with the law.

The evolution in BSP's financial reporting was brought about by various change drivers, internal and external, mainly as follows: (i) enormous changes in the role and mandate of the BSP; (ii) requirements of governing statutes; (iii) convergence and evolution

of international accounting standards; and (iv) due diligence requirements set by international financial institutions, particularly the IMF, for CBP/BSP's borrowings with these institutions.

4.2.1 Enormous Changes in the Role and Mandate of the BSP

As the role and mandate of the BSP expanded and became complicated, call for accountability and transparency has become imperative in carrying its functions.

In maintaining price stability, the BSP had to make responsive and effective measures to regulate the supply of money in the economy aimed at influencing the timing, cost and availability of money and credit, as well as other financial factors.⁵²

In managing inflation and price fluctuation at acceptable target levels that would create a climate/environment conducive to a balanced and sustainable growth of the economy, the BSP adopted the inflation targeting framework. In order to achieve the inflation target, the BSP utilizes monetary policy instruments, which include, but not limited to the following:

- i. Operations in gold and foreign exchange;
- ii. Regulations of foreign exchange operations of banks;
- iii. Loans to banking and other financial institutions;
- iv. Open market operations;
- v. Bank reserves;
- vi. Moral suasion; and
- vii. Selective regulation of bank operations.⁵³

The BSP promotes financial stability through supervision of banks and regulation of finance companies, quasi-banks and other institutions performing similar functions. Effective banking supervision and regulation foster the smooth and orderly functioning of key players in the financial system, adequate protection to investors and depositors, and prevention of both isolated and systemic failures of financial institutions. At the same time it formulates and implements policy in areas of money, banking and credit.⁵⁴

The efficient operation of the Philippine Payment and Settlement System (PhilPass) is important. PhilPass is a gross settlement system as transfers are settled individually, that is,

⁵² Bangko Sentral ng Pilipinas, (2010), Banking Laws of the Philippines-Book I: The New Central Bank Act (Annotated), p. 20.

⁵³ Ibid. p.21.

⁵⁴ Ibid. pp. 22- 23.

without netting debits against credit. It is a real time settlement system which effects final settlement immediately and continuously rather than periodically at a pre-specified time, provided that a sending bank has sufficient balance or credit. The settlement process is based on real time transfer of central bank money.⁵⁵

Most of these activities enumerated are unique to the BSP and not done by banks, which may be considered in the call for setting a reporting convention for CBs.

4.2.2 Requirements of Governing Statutes

Like other central banks, the BSP is created by virtue of law and its operation and objectives are bound to abide by its Charter, although executors have been given devolved power (Accounting Standards for Central Banks, 2003).⁵⁶ Two major statutes affect the operation of the BSP, namely, its Charter and the country's Tax Code, which tend to complicate the financial reporting compliance relative to the financial reporting standards' requisites. Falling in this aspect will be the determination of profits, dividends, policy on capitalization of central banks, accounting for realized gain/loss on foreign exchange rate/price fluctuation; for revaluation of international reserves; for manufacturing and circulation of currency; and tax accounting.

As previously mentioned, the role and responsibilities of the BSP had expanded enormously as provided by law. Along with these, the functions and nature of transactions have also expanded. Most of these mandated activities and transactions are very distinct from the activities of profit-oriented companies, non-government organizations, private and government-owned public sector.

In addition, the Tax Code also dictates other transactions of the BSP, particularly on its tax liability to the Government (this is in addition to the dividends provided in the Charter) and other activities relevant to taxes concerning other counterparties on the transactions the agency has entered into. Adding to these is the nature of the Philippine taxation system that is very dynamic.

4.2.3 Convergence and Evolution of International Accounting Standards.

The remarkable evolution of the international accounting standards has made great impact on financial reporting. There has been recent convergence of IFRS with the US GAAP. Continuing discussions on convergence are still ongoing up to the present. With this

⁵⁵ Ibid. p. 26.

⁵⁶ Central Banking Publications, Ltd., (2003), Accounting Standards for Central Banks, p. 12.

climate, the IFRS may serve as a starting point for reforming reporting arrangements of central banks but there may be a need to inquire on the rationale behind contradicting standards.

Seeing the IFRS gain international acceptance, the BSP, which replaced the then CBP in 1993, has decided to move to the IASC's Promulgated Accounting Standards in 2005 from the GAAP-based Financial Reporting Framework. Nevertheless, the treatment of the "Revaluation of the International Reserves" account was revised after 5 years or in 2010 not for purposes of complying with the IFRS but for complying with the provision of the BSP Charter. Clearly, the full adoption of IFRS is not feasible for the BSP, as observance of the financial reporting standards may not comply with the requisites of the legal provisions.

4.3.4 Due Diligence Requirements Set by International Financial Institutions

The IMF moved from post facto monitoring, the technicalities of how and where borrowed funds were held to closer scrutiny by setting due diligence standards for central bank borrowers in the form of safeguards assessments, which have become a permanent requirement for borrowers prior to disbursement of initial or additional funds under the IMF lending facilities. The IMF requires that central banks should adopt a credible accounting standard(s), such as the IFRS.⁵⁷

These are some of the factors that the BSP has considered in partly adopting the Philippine Financial Reporting Standards (PFRS) which is mainly patterned with the IFRS.

4.3 BSP Reporting of Economic and Financial Activities

The BSP, having been given great autonomy and independence in carrying out its functions, is accountable and has the responsibility to report its economic activities and financial transactions. Such reporting requires transparency. For activities involving monetary transactions, financial reporting is imperative and could be one of the media to express transparency and accountability. It is a universal function no organization, simple or complex, can do without in complying with the requirements for accountability,⁵⁸ much so for the BSP which is entrusted with the public funds.

Financial Reports are issued to: (1) account the economic events and transactions of the BSP and even the Country; (2) provide information for decision making purposes helpful;

⁵⁷ *ibid.* p. 15.

⁵⁸ *The Central Banker*, Vol. VII, No. 4, July – August 1981.

(3) show BSP Management's stewardship of the resources entrusted to it; and (4) to present BSP Management performance in carrying out the BSP mandate.

While the BSP does not fully adopt the PFRS, its financial reports consist mainly of five (5) financial statements basically required by the PFRS, namely: (i) the Balance Sheet; (ii) Income and Comprehensive Income Statement; (iii) Statement of Changes in Equity; (iv) Cash Flow Statement; and (v) Notes to the Financial Statements.

The responsibility of the BSP to publish financial reports is provided in its Charter. The said Law requires the BSP to publish and submit the following reports within the prescribed schedule to the President and to the Congress.⁵⁹

1. General balance sheet which shows the volume and composition of its assets, liabilities and equity as of the last working day of the month
 - Within sixty (60) days after the end of each month except for December
 - For the month of December, ninety (90) days after the end thereof⁶⁰
2. Analysis of economic and financial developments, including the condition of net international reserves and monetary aggregates
 - Not later than ninety (90) days after the end of each quarter
3. Preceding year's budget and profit and loss statement showing in reasonable detail the results of operations
 - Within (90) days after the end of the year
4. Review of the state of the financial system
 - One hundred twenty (120) days after the end of each semester
5. Abnormal movements in monetary aggregates and the general price level
 - As soon as practicable; and
 - Remedial measures in response to such abnormal movements, not later than seventy-two (72) hours after they are taken

In addition, the BSP shall publish and submit before the end of March each year, an annual report on the condition of the BSP including a review of the policies and measures adopted by the MB during the past year and an analysis of the economic and financial circumstances which gave rise to said policies and measures.⁶¹

⁵⁹ CD Asia: Lex Libris, Republic Act No. 7653, The New Central Bank Act, pPp. 19-21.

⁶⁰ Section 39 of Republic Act No. 7653.

⁶¹ Ibid.

The BSP Charter specifically prescribes the content of the annual report which shall include a statement of financial condition of the BSP and a statistical appendix which shall present, as a minimum, the following data:

- Monthly movement of monetary aggregates and their components;
- Monthly movement of purchases and sales of foreign exchange and of the international reserves;
- Balance of payment of the Philippines;
- Monthly indices of consumer prices and of import and export prices;
- Monthly movement, in summary form, of exports and imports, by volume and value;
- Monthly movement of the accounts of the BSP and other banks;
- Principal data on Government receipts and expenditures and on the status of the public debt, both domestic and foreign; and
- Texts of the major legal and administrative measures adopted by the Government and the MB during the year which relate to the functions or operations of the BSP or of the financial system.

More so, the BSP is also required to publish another version of the annual report in terms understandable to the layman.⁶²

The governance of financial reports and accounting standards in the BSP is structured as follows:

- The 7-Member Monetary Board exercises the powers and functions as defined in the BSP Charter, approves the release of financial reports;
- The BSP Corporate Audit Committee recommends approval of the financial Reports;
- The Head of the Comptrollership Sub-sector reviews the financial reports;
- The Financial Accounting Department undertakes the preparation of the financial statements;
- The Internal Audit Office undertakes the assurance and internal compliance review;
- The Commission on Audit takes charge of the compliance audit of the BSP and all Government agencies (Article IX-D of the Philippine Constitution; Presidential Decree No. 1445).

⁶² Section 40 of Republic Act No. 7653.

5. Issues: Reporting Standards and Legal Frameworks

Although the BSP follows mostly the IFRS, it has established an internal convention in order to meet the requirements of the statutes and carry out its mandated functions. Further, the uniqueness of functions and purposes for which no clear-cut guidelines in the IFRS can be applied, resulted in the numerous unique activities of the BSP which are far different from the objectives, transactions and activities of commercial entities, profit-oriented financial and banking businesses.

While FR conventions and standards may serve as guidelines for conveying financial information, the legal frameworks direct the uniqueness of BSP governance, operations and structures. Although, sometimes not congruent with each other, both may call for the responsibility for accountability, and transparency in effectively conveying to stakeholders the BSP's economic activities and financial transactions

For example, the BSP Charter does not provide that it undertake gainful activities. The functions and purposes provided there at are far different from those set for entities purposely created for profit. On the other hand, the present PFRS which is patterned after the IFRS has been established for firms organized for gainful activities as provided for in their articles of incorporation and by-laws.

Looking at the balance sheet, the BSP like other central banks generally and most often hold foreign exchange portfolio as BSP needs to accumulate international reserves, which, conversely, is not a major concern of banks and non-central bank institutions, and which may require different financial reporting framework.

5.1 Legal Frameworks and Issues with Reporting Standards

The application of relevant PFRS/IFRS on some of BSP's financial transactions might not be practicable, if the specific PFRS/IFRS runs counter with the legal framework. The implication/constraints of applying PFRS/IFRS for some BSP's transactions are presented, as follows:

BSP Charter/Pertinent Laws	Implication
<p>Revaluation profits and losses – Profits or losses arising from any revaluation of the BSP’s net assets or liabilities in gold or foreign currencies with respect to the Philippine peso shall not be included in the computation of the annual profits and losses of the BSP. Any profits or losses arising in this manner shall be offset by any amounts which, as a consequence of such revaluations, are owed by the Philippines to any international or regional intergovernmental financial institution of which the Philippines is a member or are owed by these institutions to the Philippines. Any remaining profit or loss shall be carried in a special frozen account which shall be named “Revaluation of International Reserve” and the net balance of which shall appear either among the liabilities or among the assets, depending on whether the revaluations have produced net profits or net losses (Sec. 45, RA No. 7653).⁶³</p>	<p>At present, BSP does not treat the unrealized gain/loss as income and does not report the same in the income statement, which differ with the provisions of the PAS/IAS on the accounting treatment for the effects of changes in foreign exchange rates, to satisfy the provision of the legal framework.</p> <p>The revaluation of international reserves is lodged under the “Revaluation of International Reserve” account either as asset, if loss position or liability, if gain. Realized gain/loss is recognized only when the asset is repatriated to pay obligation or converted to national currency. Per Courtis and Foster (2003), “Under the IFRS, the majority of assets on the CB’s balance sheet must be accounted at fair value, and any resulting gains and losses recorded as income and passed through the profit and loss account. As managers of national foreign exchange reserves, CBs often hold large unhedged foreign exchange portfolios. Large exchange rate movements thus generate large gains and losses. If these reserves are marked to market and reported as income, the income stream of the CBs will become highly volatile. Large unrealized gains on the reserve portfolio may leave CBs obliged, or at least under pressure, to distribute correspondingly large dividends to their government shareholders. The issue comes if and when gains turn into losses.”⁶⁴</p>
<p>International reserves (IR) – In order to maintain the international stability and convertibility of the Philippine peso, the BSP shall maintain international reserves adequate to meet any foreseeable net demands on BSP foreign currencies (Sec. 65, RA No. 7653).⁶⁵</p>	<p>Large exchange rate movements thus generate large gains and losses. If these reserves are marked to market and reported as income, the income stream of the CBs will become highly volatile. Large unrealized gains on the reserve portfolio may leave CBs obliged, or at least under pressure, to distribute correspondingly large dividends to their government shareholders. The issue comes if and when gains turn into losses.”⁶⁴</p>
<p>Purchases and sale of gold – the BSP may buy and sell gold in any form. This shall be made in national currency at the prevailing international market price (Sec. 69, RA No. 7653).⁶⁶</p>	<p>The issue comes if and when gains turn into losses.”⁶⁴</p>
<p>Purchases and sales of foreign exchange – BSP may buy and sell foreign notes and coins, and documents and instruments of types customarily employed for the international transfer of funds. It may also engage in future exchange operations.</p> <p>The BSP may engage in foreign exchange</p>	<p>IAS 21, <i>The Effect of Changes in Foreign Exchange Rates</i>, subject to some criteria, required all foreign exchange gains and losses, realized and unrealized, to be recognized in the income statement.</p> <p>IAS 39, <i>Financial Instruments: Recognition and Measurement</i>, introduced the use of fair value for</p>

⁶³ CD Asia: Lex Libris, Republic Act No. 7653, The New Central Bank Act, pp. 21-22.

⁶⁴ Courtis, Neil and Jeremy Foster, (2003), Introduction, Accounting Standards for Central Banks, p. 17.

⁶⁵ Ibid, p. 27.

⁶⁶ Ibid. pp. 29-30.

BSP Charter/Pertinent Laws	Implication
<p>transactions with the following entities or persons only:</p> <ul style="list-style-type: none"> • Banking institutions operating in the Philippines; • Government, its political subdivisions and instrumentalities; • Foreign or international financial institutions; • Foreign governments and their instrumentalities; and • Other entities or persons which the MB is hereby empowered to authorize as foreign exchange dealers, subject to such rules and regulations as the MB shall prescribe (Sec. 70, RA No. 7653).⁶⁷ 	<p>financial assets and liabilities, with stricter requirements for related gains and losses, realized and unrealized to be reported in the income statement.</p> <p>Relative to the standards mentioned, there are issues on the accounting treatment with respect to the effect of foreign exchange rate on the revaluation of international reserves/ transactions/activities involving BSP's foreign currency denominated assets and liabilities</p>
<p>Operations with foreign entities – The MB may authorize the BSP to grant loans to and received loans from foreign banks and other foreign or international entities, both public and private, and may engage in such operations with these entities as are in the national interest and are appropriate to its character as a central bank. As authorized, BSP may pledge any gold or other assets which it possesses as security against loans which it receives from foreign or international entities (Sec.75, RA No. 7653).⁶⁸</p>	
<p>Liability for notes and coins – Notes and coins issued by the BSP shall be liabilities of the BSP and may be issued only against, and in the amounts not exceeding, the assets of the BSP. The BSP's holdings of its own notes and coins shall not be considered as part of its currency issue and, accordingly shall not form part of the assets or liabilities of the BSP (Sec. 51, RA No. 7653).⁶⁹</p>	<p><i>Issue in Cash Flow Statement.</i> While the BSP prepares a Cash Flow Statement, the said statement and its balance sheet does not reflect a cash account line item in consonance with the provision of the Charter.</p>
<p>Printing of notes and minting of coins – All expenses incurred in the printing of notes and</p>	<p><i>Seigniorage: Issue on Matching Principles.</i> Seigniorage refers to the revenue generated by</p>

⁶⁷ CD Asia: Lex Libris, Republic Act No. 7653, The New Central Bank Act, p. 30.

⁶⁸ Ibid, p. 32.

⁶⁹ CD Asia: Lex Libris, Republic Act No. 7653, The New Central Bank Act, p. 24.

BSP Charter/Pertinent Laws	Implication
minting of coins shall be for the account of the BSP (Sec. 54, RA No. 7653). ⁷⁰	CB from assets created by printing and issuing money. ⁷¹
Replacement of currency unfit for circulation – The BSP shall withdraw from circulation and shall demonetize all notes and coins which for any reason whatsoever are unfit for circulation and shall replace them, except notes and coins that are impossible to identify (Sec. 56, RA No. 7653). ⁷³	Under the BSP accounting practice, “seigniorage” will be recognized only when the asset created upon issuance of currency is converted/invested into earning asset like investment in government securities, lent out to qualified banks and/or other investment portfolio including foreign currency denominated assets.
Retirement of old notes and coins – BSP may call in for replacement notes of any series or denomination which are more than five (5) years old and coins which are more than ten (10) years old. BSP shall also demonetize all notes and coins which have been called in and replaced (Sec. 57, RA No. 7653). ⁷⁴	Earnings from such investments may take the form of interest income, discounts/premiums earned, trading income, realized gains from FX fluctuations and other income. ⁷²

5.2 Other Aspects that Differentiate the Bangko Sentral

Examination and fees – Banks and quasi-bank institutions which are subject to examination by the BSP shall pay an annual fee in an amount equal to a percentage, as may be prescribed by the MB, of its average total assets during the preceding year as shown on its end-of-month balance sheets, after deducting cash on hand and amounts due from banks, including the BSP and banks abroad (Sec. 28, RA No. 7653).⁷⁵

Disposition of banking franchise – BSP may, if public interest so requires, award to an institution, upon such terms and conditions as the MB may approve, the banking franchise of a bank under liquidation to operate in the area where the said bank or its branches were previously operating. Whatever proceeds may be realized from such award shall be subject to appropriate exclusive disposition of the MB (Sec. 33, RA No. 7653).⁷⁶

⁷⁰ Ibid.

⁷¹ Bangko Sentral ng Pilipinas, (2012), “Seigniorage: Measurement and Emerging Issues,” *Center for Monetary and Financial Policy Paper*, p. 1.

⁷² Ibid. 68 p. 28.

⁷³ Ibid. p. 25.

⁷⁴ Ibid.

⁷⁵ Ibid. p. 13.

⁷⁶ Ibid. p. 16.

Computation of profits and losses – in the calculation of net profits, the BSP shall make adequate allowance or establish adequate reserves for bad and doubtful accounts (Sec. 43, RA No. 7653).⁷⁷

Distribution of net profits – 50% shall be carried to surplus; 50% shall revert back to the National Treasury except as provided in the transitory provision which provided for 25 to 75 ratio, respectively (Sec. 44, RA No. 7653).⁷⁸

Credit operations – Rediscounts, discounts, loans and advances which the BSP is authorized to extend to banking institutions under the provisions of the present article of its Charter shall be used to influence the volume of credit consistent with the objective of price stability (Sec. 81, RA No. 7653).⁷⁹

Provisional advances to National Government (NG) – BSP may make direct provisional advances with or without interest to the NG to finance expenditures authorized in its annual appropriation (Sec. 89, RA 7653).⁸⁰

Open market operations – The open market purchases and sales of securities by the BSP shall be made exclusively in accordance with its primary objective of achieving price stability (Sec. 90, RA No. 7653).⁸¹

Reserve requirements – In order to control the volume of money created by the credit operations of the banking system, all banks shall be required to maintain reserves against their deposit liabilities, funds held in trust and liabilities for deposit substitutes (Sec. 94, RA No. 7653).⁸²

One can delve into each specific unique activities of BSP which are directly or indirectly related to its mandate. As such, strict adherence to the IFRS by the BSP, like other central banks, has contrasting implications to management policy and functions in complying with the law. This can cause problems for central banks. The adoption of IAS 39 may affect the reserve management function and the dividend policy of the central banks.⁸³ The standard provides that assets are to be accounted at fair value and any resulting gains and

⁷⁷ Ibid. p. 21.

⁷⁸ Ibid.

⁷⁹ Ibid p. 33.

⁸⁰ Ibid. p. 38.

⁸¹ Ibid. p. 39.

⁸² Ibid. p. 101.

⁸³ Accounting Standards for Central Banks, Central Banking Publications Ltd., 2003, p. 16.

losses are recorded as income even if not yet realized. This will impact on dividends distribution.

Some of the provisions also complicate and might contradict with other standards, in relation to applying the governing statutes. This might be the reason why other CBs establish and adopt their own financial reporting standards in performing their functions in consonance with the provisions of the law which govern the essence of their existence. This aspect may call for review of some practices of CBs.

BSP and other CBs may have similar mandates but in carrying out their functions, may apply different treatments and practices, accounting or otherwise, subject to the provision of the legal frameworks governing their activities. While these sets of activities are common for CBs, there also exist across and between CBs, different treatment, and practices in carrying these functions. These may call for standardization first, as a requisite for establishing reporting standards for CBs. Existence of these unique treatments and practices between CBs may initially support the need to establish first the focal points of central banks and their governments for setting an international standard practice between CBs, and assess whether the coherence or differences in practices will warrant development of an independent financial reporting convention for central banks.

The results of the survey conducted by the SEACEN Project Team in 2015 support the existence of these similar and/or different practices, and activities of the CBs among the SEACEN members.⁸⁴

6. Existing Specialized Financial Reporting Frameworks

As mentioned earlier, it is of interest to note that the IFRS and the GAAP contain the standards that have been formulated/adopted for Agriculture, Small Medium Enterprises (SME), Not for Profit Organizations (NPO) and even for the general Public Sector Entities (PSE) because of the inherent uniqueness of their activities.

Discussion on these specialized financial reporting standards is included to support the position on the necessity to promulgate financial reporting frameworks for central banks considering their unique objectives, financial transactions and activities.

Considering the performance of those functions mentioned earlier, which are much distinct from other types of businesses and industries, may call for the adoption of an

⁸⁴ SEACEN Survey on Central Banks Financial Reporting, The SEACEN Centre, August 2015

accounting convention catered to CBs corresponding to the accounting standards developed for Agriculture, NPOs, PSEs and SMEs, for example.

To reinforce the idea on this aspect, the salient features of the standards developed for SMEs and for the NPOs are presented below

6.1 IFRS for Small and Medium-sized Entities (IFRS for SMEs)

It is said that the IFRS for SMEs is intended for application for general purpose financial statements of entities that do not have public accountability. Entities that have public accountability, and therefore are outside the scope of the IFRS for SMEs, include those whose shares or debt instruments are traded in a public market, banks, credit unions, securities brokers/dealers, mutual funds and insurance companies.⁸⁵

6.1.1 Importance of a Global Financial Reporting Standards for SMEs

According to the IFRS Foundation, “The benefits of global financial standards, applied consistently, enhance the comparability of financial information. Accounting differences can obscure the comparisons that investors, lenders and others make. By requiring the presentation of useful financial information (i.e. information that is relevant, reliable, comparable, etc.), high quality global financial reporting improve the efficiency of the allocation and pricing of capital. This benefits not only those who provide debt or equity capital but also benefits those entities that seek capital because it reduces their compliance costs and removes uncertainties that affect their cost of capital. Global standards also improve consistency in audit quality and facilitate education and training.”⁸⁶

Further, the Foundation said, “In the IASB’s judgment, SMEs and those who use their financial statements, can benefit from a common set of accounting standards. SMEs’ financial statements that are comparable from one country to the next are needed for the following reasons:

- Financial institutions make loans across borders and operate multi-nationally. In most jurisdictions, over half of all SMEs, including the very small ones, have bank loans. Bankers rely on financial statements in making lending decisions and in establishing terms and interest rates;
- Vendors want to evaluate the financial health of buyers in other countries before they sell goods or services on credit;

⁸⁵ IFRS Foundation: Training Material for the IFRS for SME, Version 2013-1, p. 1.

⁸⁶ Ibid.

- Credit rating agencies try to develop ratings uniformly across borders. Banks and other institutions that operate across borders often develop similar ratings. Reported financial information is crucial to the rating process;
- Many SMEs have overseas suppliers and use a supplier's financial statements to assess the prospects of a viable long-term business relationship;
- Venture capital firms provide funding to SMEs across borders; and
- Many SMEs have outside investors who are not involved in the day-to-day management of the entity.”⁸⁷

6.1.2 External users of SMEs Financial Statements

As per Foundation, “The objective of financial statements is to provide information about the financial position, performance and changes in the financial position of an entity that is useful to a wide range of users in making economic decisions. In establishing standards for the form and content of general purpose financial statements, the needs of users of financial statements are paramount. The main group of users of SMEs’ financial statements includes:

- Banks that make loans to SMEs;
- Vendors that sell to SMEs and use SMEs’ financial statements to make credit and pricing decisions; and
- Customers of SMEs that use SMEs’ financial statements to decide whether to do business; and SMEs’ shareholders that are not also managers of their SMEs.”⁸⁸

6.2 IFRS for Not-for-Profit Organizations (IFRS for NPOs)

According to Kurt Herdman of Schneider Downs, the standard setting authorities, the Financial Accounting Standards Board (FASB) and the IASB, had broadly defined their goal of international convergence to establish “a single set of high-quality, international standards that companies worldwide would use for both domestic and cross-border financial reporting.” At present, rather than requiring the American companies to adopt the IFRS, convergence is being accomplished through the issuance of new standards by both the FASB and the IASB to minimize the differences between the two standards.⁸⁹

The IFRS for NPOs establishes standards for general purpose external financial statements provided by “not-for-profit” organizations. Its objective is to enhance the

⁸⁷ Ibid. p. 1.

⁸⁸ Ibid. pp. 2-3.

⁸⁹ www.accountingweb.com/aa/standards/nonprofits-and-international-financial-reporting-standards.

relevance, understandability, and comparability of financial statements issued by NPOs. It requires for all NPOs to provide a statement of financial position, a statement of activities, and a statement of cash flows. Also, these financial statements provide certain basic information that focuses on the entity as a whole and meet the needs of external users of these statements.⁹⁰

The standard also requires the classification of NPOs' net assets and their revenues, expenses, gains, and losses be based on the existence or absences of donor-imposed restrictions. It requires that the amounts for each of three classes of assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities. It further specifies that voluntary health and welfare organizations continue to provide a statement of functional expenses, which is useful in associating expenses with service efforts and accomplishments of NPOs.⁹¹

This is promulgated in order to address the following practices of NPOs on providing financial statements that differ in their form and content. For example, most hospitals, trade association, and membership organizations provide the statement of financial position and a statement of activities (or statement of revenues and expenses) that report their financial position and results of operations for the entity as whole. In contrast, universities, museums, religious organizations, and certain other “not-for-profit” loose organizations often provide financial statements that report the financial position and changes in financial positions of individual groups, but many do not report the financial position and results of operations for the entity as a whole. Some NPOs are reporting cash flow information, but most do not. Further, voluntary health and welfare organizations and certain other charitable organizations generally provide a statement that reports expenses by functional classification and by natural classification, but most other NPOs do not.

7. Recapitulation

The BSP, like other central banks, has been created by virtue of its Charter. It is established not for gainful activities, but for the intention of providing policy direction on matters dealing with forces affecting the economy and development of the country. The legal frameworks prescribe the distinct nature, functions, roles and activities of the BSP.

⁹⁰ FAS 117 – Financial Statements of Not-for-Profit Organizations, Financial Accounting Standards Board, 1993. p. 4.

⁹¹ Ibid. p. 5.

Financial reporting standards, such as the Europe-initiated IFRS and the American-based GAAP, govern the rules for financial reporting presentation. These sets of rules are either promulgated by central banks themselves (group or individual), by the concerned authority which has jurisdiction of setting the accounting standards in a particular country or by an international standards setting body.

While the IFRS is gaining global acceptance, the standards and literature concerning financial reporting for CBs categorize the central banks, like the BSP, as a regular bank which should not be the case in view of the inherent unique activities of CBs and other factors that should be taken into consideration to differentiate them from regular banks. This may call for establishing financial reporting standards for CBs.

In applying the IFRS, the BSP has experienced contrasting implications to management policy and functions in complying with the law. This can cause problems for the BSP as some treatment under the IFRS may impact on dividends distribution and raises the issue on which is more appropriate. This impact may be experienced by other CBs.

CBs may have similar mandates but in carrying out their core functions, they may apply different treatments and practices, accounting or otherwise, subject to the provision of the legal frameworks governing their activities. Existence of these unique treatments and practices among CBs may initially support the establishment of the focal points for central banks and their governments to be able to set an acceptable convergence in practice and treatment of CBs – the basis of their creations, activities and transactions; responsibilities, roles, functions and objectives. This will help in laying down the foundation towards the development of an independent financial reporting convention for central banks.

Acronyms

ASC	Accounting Standard Council
BOA	Board of Accountancy or the Board
BP	Batas Pambansa
BSP	Bangko Sentral ng Pilipinas
CB	Central Banks
CBP	Central Bank of the Philippines
CMA	Central Monetary Authority
COA	Commission on Audit
EU	European Union
FASB	Financial Accounting Standard Board
FINEX	Financial Executives Institute of the Philippines
FRSC	Financial Reporting Standards Council
GAAP	Generally Accepted Accounting Principles
IASB	International Accounting Standard Board
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IR	International Reserves
MB	Monetary Board
NG	National Government
NPO	Not-for-Profit Organization
PD	Presidential Decree
PhilPass	Philippine Payment and Settlement System
PICPA	Philippine Institute of Certified Public Accountants
PNB	Philippine National Bank
PSE	Public Sector Entity
RA	Republic Act
SEACEN	The South East Asian Central Banks (SEACEN) Research and Training Centre
SEC	Securities and Exchange Commission,
SME	Small Medium Enterprise

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