

CENTRAL GOVERNMENT ACCOUNTING STANDARDS

FRANCE

2004

CENTRAL GOVERNMENT ACCOUNTING STANDARDS

FRANCE

2004

CENTRAL GOVERNMENT ACCOUNTING STANDARDS

CONTENTS

INTRODUCTION	4
CONCEPTUAL FRAMEWORK FOR CENTRAL GOVERNMENT ACCOUNTING	5
STANDARD 1: FINANCIAL STATEMENTS	19
STANDARD 2: EXPENSES	34
STANDARD 3: SOVEREIGN REVENUES	50
STANDARD 4: OPERATING REVENUES, INTERVENTION REVENUES AND FINANCIAL REVENUES	62
STANDARD 5: INTANGIBLE ASSETS	67
STANDARD 6: TANGIBLE ASSETS	77
STANDARD 7: FINANCIAL ASSETS	103
STANDARD 8: INVENTORIES	119
STANDARD 9: CLAIMS RELATED TO CURRENT ASSETS	126
STANDARD 10: CENTRAL GOVERNMENT CASH POSITION COMPONENTS	132
STANDARD 11: FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS	140
STANDARD 12: PROVISIONS FOR RISKS AND LIABILITIES, NON-FINANCIAL LIABILITIES AND OTHER LIABILITIES	155
STANDARD 13: COMMITMENTS TO BE DISCLOSED IN NOTES TO THE FINANCIAL STATEMENTS	162
GLOSSARY	172

INTRODUCTION

This compendium contains the accounting standards that apply to the central government. There are three parts:

- the *Conceptual Framework for Central Government Financial Statements*, which presents the assumptions underlying the accounting standards, defines the main concepts derived from these assumptions and discusses the scope and the limitations of the financial information provided by the statements;
- the *Accounting Standards*, which are presented using the following structure:
 - an *Introduction* that explains the standards, any specific features of the central government in the area under consideration, the choices made and how the standard compares to other benchmarks
 - The *standards* per se, using a four-part structure:
 - 1. Scope
 - 2. Accounting Treatment
 - 3. Valuation
 - 4. Disclosures in the Notes
 - and *Examples* to illustrate how the Standards fit into the legal and financial context;
- the *Glossary*.

As regards the status of the documents contained in this compendium, only the standards themselves shall be regarded as setting requirements.

Application of these Standard is linked to the implementation of new central government budget and accounting information systems. Full application will only be possible once these systems have been fully deployed.

CONCEPTUAL FRAMEWORK FOR CENTRAL GOVERNMENT ACCOUNTING

Conceptual Framework for Central Government Accounting

I – PURPOSE OF THE CONCEPTUAL FRAMEWORK FOR CENTRAL GOVERNMENT ACCOUNTING

Under the provisions of Article 27 of the Constitutional bylaw regarding budget procedures of 1 August 2001¹, “the central government shall keep accounts of budgetary receipts and expenditures and general purpose accounts for all of its transactions. In addition, it shall implement an accounting system designed to analyse the cost of the various actions undertaken as part of its programmes.”

Article 28 stipulates that budgetary receipts and expenditures shall be recognised on a cash basis. Therefore, receipts and expenditures are recorded on a cash basis for the financial year, which may be extended by a “continuing period” lasting up to twenty days.

The Standard in this compendium apply to the central government’s general-purpose financial statements. Article 30 stipulates that these financial statements are based on the accrual accounting principle. Transactions are entered for the financial year to which they are related, independently of the date of payment or receipt. The same principle is found in the legislation governing business financial statements.

Consequently, the Constitutional bylaw stipulates that the accounting rules for the central government are the same as those for business, except when differences are warranted by the specific nature of the central government’s activity.

All of the rules and standards for applying accrual accounting principles to the central government should therefore be elaborated with reference to the provisions applying to business. This means that we have to determine which business accounting rules are directly applicable to central government, which rules need to be adapted to specific features of its activities and which rules need to be created to account for transactions that are not covered by business accounting standards.

The scale and the specific nature of certain central government transactions mean that the new rules should be explained and put into perspective by preliminary remarks on the scope, purpose and limitations of such accounting. These matters are covered in this conceptual framework, which serves three purposes:

- It presents the assumptions underlying the accounting standards that apply to the central government.
- It defines the main concepts derived from these assumptions.
- It explains the scope and the limitations of the financial information provided by the statements.

The conceptual framework is not a rule-making standard in itself. Its purpose is to provide helpful material for understanding and interpreting the rules. It is aimed at the rule-makers, the accountants responsible for keeping and drawing up the financial statements, the auditors responsible for certifying the financial statements and the users of financial information thus produced.

It provides a conceptual benchmark for rule-makers to ensure the consistency of various rules and standards.

It helps accountants and auditors understand and interpret the rules. Interpretation may be necessary to deal with special cases or new transactions that are not adequately covered by the existing rules. The conceptual framework may also help with the definition and technical organisation of accounting systems

¹ Constitutional bylaw 2001-692 of 1 August 2001 on the budget. Hereinafter referred to as the “Constitutional bylaw”.

by explaining the ultimate purpose of such systems. It will also give those who use accounting information a better understanding of its scope and limitations.

This information is intended primarily for citizens and their representatives. Accounting information must naturally meet the needs of those responsible for conducting and managing the central government's tasks and activities. The information is also intended for international public institutions, capital markets and investors in debt securities.

The variety of people using the information requires it to be wide-ranging and comprehensive, encompassing all elements that have an impact on the financial situation.

Even though there are several sets of accounting standards for business, none is specifically stipulated by law. The basic options presented in this framework are consistent with the common core concepts found in the main standards. The body of Central Government Accounting Standards constitute a complete and consistent system.

Furthermore, France's accounting reform should be conducted in line with the work on international standards in which France is an active participant.

Therefore, this conceptual framework has been designed with special reference to the following three sets of standards:

- the French Chart of Accounts and the Accounting Regulation Committee regulations in force in France,
- the Standards being developed by the IFAC Public Sector Committee,
- the IASB Standards.

These three sets of standards are now converging.

Some original solutions may be required because of the specific features of France's central government, but they must be justified and consistent with the conceptual framework.

II – PURPOSE OF FINANCIAL STATEMENTS

Under business accounting standards, the purpose of financial statements is generally to provide a true and fair view of the assets and liabilities, financial position and profit or loss of an enterprise. The concepts used in legislation on business financial statements need to be explained in the case of the central government. More fundamentally, the Constitutional bylaw starts by establishing a major difference from business accounting, since Article 27 stipulates that the "central government's financial statements must be lawful and faithfully present a true and fair view of its net worth and its financial position", with no reference to profit or loss.

II.1 – Net Worth, Financial Position, Commitments

Net worth is usually defined as the combined rights and obligations pertaining to a person.

The financial position is the financial and accounting representation of the notion of net worth.

To present a true and fair view of assets, liabilities and the financial position, the scope of these rights and obligations needs to be defined. They need to be identified, valued and accounted for using the classification of assets and liabilities.

In the case of the central government, these operations call for due consideration of the following:

- The diversity and numbers of central government rights and obligations means that we only present elements that have a notable impact on its financial position, meaning an increase, a decrease or a change in the structure of the financial position.
- There is no initial capital amount, since there is no initial start date and no initial balance sheet was prepared.
- Valuation of assets with a long economic life raises special problems.
- The very notion of asset, as used in business accounting, does not adequately account for the central government's circumstances, which include the very special "intangible asset" of sovereignty, and its corollary, the right to levy taxes.
- Sovereignty also has a major consequence with regard to the notion of liability, which sometimes requires original solutions for the central government that go beyond the recording of conventional liabilities, like those of businesses.

All in all, comparison of the central government's assets and liabilities is essential for the consistency and accuracy of accounting records over time and for an analysis of the central government's financial position. But, even though it may be consistent with the major principles (especially accrual accounting), this comparison cannot be interpreted in the same way as a comparison of business assets and liabilities.

To underline this difference, the financial statements are still presented as a balance sheet in the form of a statement of financial position.

The role of "insurer of last resort", which the central government often has to play, also requires a precise definition of the limits on the types of off-balance sheet commitments to be disclosed in the notes to the financial statements.

II.2 – Expenses and Revenues, Performance

Article 27 of the Constitutional bylaw does not mention profit or loss. This particularity stems from problems with accrual accounting of expenses and revenues in the case of the central government.

In business, the commonest accounting measurement of profit or loss is based on an accrual principle that makes it possible to match expenses to revenues. In the case of the central government, revenues are not, on the whole, related to the sale of goods and services produced as a result of the activity that gave rise to the expenses. Revenues are generally unrelated to expenses and they are not allocated to cover given expenses in principle.

In business accounting, accrued expenses and revenues can be matched in two stages. We can start by recording the accrued expenses relating to the resources consumed during the accounting period. These expenses enable us to measure the enterprise's production during the accounting period. Then, in order to calculate the profit or loss, we need to include the expenses related to production that was added to inventory in previous periods and sold during the period under consideration. We also need deduct expenses incurred during the period that relate to production added to year-end inventories.

The first type of accruals can be transposed to the central government's financial statements, at least in the case of expenses related to resources consumed. Such a transposition is critical if we want to break down costs by programmes or by other categories. We can also establish rules that require expenses relating to government transfers to be recorded in the financial statements for the year in which the obligations involved arise. However, we cannot transpose the accrual principle for revenues for the reasons already mentioned.

Therefore, we cannot interpret the level of profit or loss as we would in the case of a business enterprise. But, as long as the rules for recognising expenses and revenues have been established and are applied in accordance with the principle of consistency of methods, the variations in the surplus or deficit over the years can provide important information about the impact of fiscal policies.

II.3 – Links to the Budget, Relationship to Management and Targets, Links to National Accounts

The budget is drawn up and passed as an authorisation act. The authorisation for expenditures covers both spending commitments and payments. Execution of the budget authorisation therefore requires accounting systems for recording commitments and for recording payments. The latter accounting system is explicitly provided for under the terms of Article 27 of the Constitutional bylaw.

The linkage between the budget accounting system and the general purpose accounting system is an important objective. General-purpose financial statements should provide helpful information for drawing up the budget and understanding its execution.

The principle adopted is that the different systems need to be integrated in conceptual terms and that their architecture needs to be consistent so that linkage is possible between the various systems for monitoring budget execution. Even though the budget rules need to stand alone and follow their own logic, there should be simple links between budget accounts, which the Constitutional bylaw defines as the records of receipts and payments, and the accounting records that provide information for the general purpose financial statements for the year.

Finally, compliance with the commitments made under the Growth and Stability Pact is measured on the basis of the national accounts. The system of national accounts has its own rules warranted by the special constraints that such accounts must meet. However, the general principles underlying the system refer explicitly to accrual accounting and the main notions are the same. Therefore, the intelligibility and credibility of the central government's financial statements hinge on their being consistent with the national accounts data.

This consistency needs to be achieved on the conceptual level and on the quantitative level. This means that the accounting concepts and rules that are supposed to be the same under both systems must use exactly the same definitions and produce the same results. It also means that differences between notions and rules need to be identified and explained. Furthermore, any differences in the annual results need to be explained, measured and presented in a transition table.

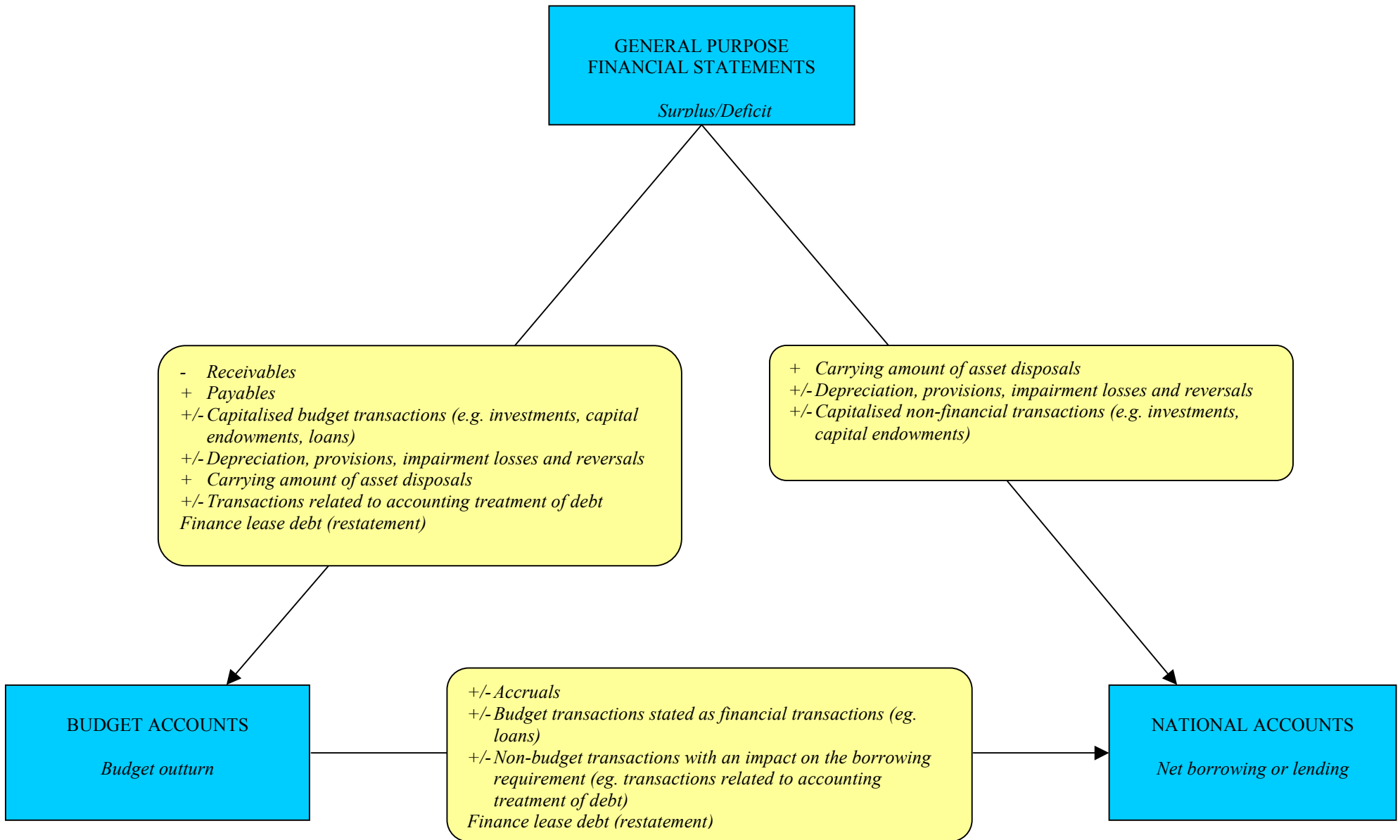
The diagram below shows the main differences in concepts between the surplus or deficit for the period determined on the basis of the general purpose financial statements, the budget outturn determined using the budget accounts and the net borrowing or net lending calculated according to the national accounts.

II.4 – Measuring Costs and Performance

Accrual accounting is a fundamental element of the accounting system for analysing the costs of actions as required under the terms of Article 27 of the Constitutional bylaw. The general concepts are defined in the same way in the different accounting systems so that meaningful comparisons can be made between management units. The notion of full cost needs to be defined in terms of accrual accounting concepts. This requirement does not mean that managers necessarily have to track full costs. It only means that the costs tracked at one level or another, or in one management unit or another (which may vary in nature), should be comparable with regard to this common notion.

This way, the matching of expenses to the revenues arising from the activities of different departments or representing the participation of other entities in carrying out certain operations, helps to calculate the net costs. These costs may be compared to non-monetary indicators relating to the quality of the services provided or some other characteristics, or else they may be used to set targets. The comparison of costs, targets and results provides helpful information about management performance.

**THE MAIN CONCEPTUAL DIFFERENCES BETWEEN THE ANNUAL SURPLUS/DEFICIT,
BUDGET OUTTURN AND NET BORROWING OR LENDING**



II.5 – Presentation and Interpretation of Financial Statements

In view of the preceding remarks, the financial statements presented are the following:

- a balance sheet in the form of a statement of financial position;
- a statement of financial performance presented in three parts: a net expenses statement, a net sovereign revenues statement and a net operating surplus or debt statement for the period;
- a cash flow statement that distinguishes between flows from operating activity, investing activity and financing activity.

Notes to the statements present all of the information needed to understand and interpret the data in the statements with tables providing details about certain items in the summary statements.

The preceding discussion about the meaning of the financial position and surplus/deficit shows that interpretation of the financial statements calls for a degree of prudence, particularly when it comes to analysing solvency. However, these limitations have no bearing on the usefulness of these data.

They can be used to measure costs, which is critical for an objective approach to justifying budget appropriations, management choices and performance assessments.

Determining liabilities, even though the very nature of central government responsibilities makes such a definition difficult, provides important information about the sustainability of fiscal policies, especially when this information is backed up by data on off-balance sheet commitments in the notes to the financial statements.

The system makes it possible to track changes in the value of assets, particularly the value of tangible assets and financial assets. This provides information about how well the central government manages such assets in a limited, but important, area.

Tracking tax revenues on another basis than cash receipts enables us to assess the efficiency of the system better and provides key resources for improving management and forecasts.

III – GENERAL CHARACTERISTICS OF CENTRAL GOVERNMENT ACCOUNTING

III.1 – Accounting Principles

Article 27 of the Constitutional bylaw mentions the principles of lawfulness, faithfulness and a true and fair view, which are generally recognised as accounting principles, even if the true and fair view is sometimes considered to be more of an objective than a principle.

Beyond the terms of this article, all generally accepted accounting principles should apply to the central government. The list of principles below is not necessarily exhaustive. It covers the principles that seem to be common to all of the business accounting standards. The fact that a principle is not mentioned does not mean that it is not deemed to apply to the central government.

Compliance

This principle states that the financial statements shall comply with applicable rules and procedures.

Faithful Representation

This principle states that the rules and procedures in force are applied so as to provide a faithful representation of the knowledge that those responsible for drawing up the financial statements have of the substance and materiality of the events recorded in the statements.

True and Fair View

The true and fair view is not defined directly. French and European legislation stipulates that when application of an accounting rule is not enough to provide a true and fair view, further information should be provided in the notes to the financial statements. Furthermore, under exceptional circumstances, if the application of a rule turns out to be unlikely to provide a true and fair view, there should be a departure from the rule. Such departures must be mentioned and explained in the notes to the financial statements with information about their impact on the statements.

Accrual Basis

This principle is linked to the very concept of the accounting period, which is normally one year. The accrual accounting principle calls for recognition of expenses and revenues only in the accounting period to which they actually relate.

Going Concern Basis

This principle states that the central government shall continue to carry out its activities in the foreseeable future. All assets are valued on a going concern basis.

Consistency of Methods

The consistency of accounting information over successive years requires consistency in accounting rules and procedures. This is necessary for comparing years, measuring trends and analysing performance. Changes in accounting conventions and methods should only occur if they help financial statements present a truer and fairer view. Any changes with a significant impact on the statements must be explained in the notes to the financial statements.

Information Quality

This principle states that the accounting system must meet the following qualitative criteria:

- *Understandability:*

The information provided in the financial statements must be immediately understandable for users who are assumed to have a reasonable knowledge of accounting. This does not rule out information about complex subjects, which has to be included in the financial statements because it is relevant for decision-making purposes.

- *Relevance:*

Information is relevant when it is connected to the data being analysed and when it enables users to make better assessments of past, present and future events.

The relevance of information is influenced by its nature and its materiality:

- In certain cases, the *nature of the information* is enough on its own to make the information relevant and useful for assessing the risks and opportunities facing the entity. But, in other cases, we need to assess both the nature and the materiality of information.
- *Materiality* describes the value of the information contained in the financial statements for decision-makers. A piece of information or a combination of information is deemed to be material if its omission, non-disclosure or misrepresentation can have an influence on the decisions made by users.

- *Reliability:*

Reliable information is free from material error and bias. It represents faithfully what it purports to represent or could reasonably be expected to represent.

To be reliable, information must meet other criteria:

- It must provide a *faithful representation* of the transactions and other events it purports to represent.
- It needs to be *neutral*, meaning free from bias.
- It needs to be *prudent*, with a reasonable assessment of the situation so that assets and revenues are not overstated and liabilities and expenses are not understated.
- The information needs to be *complete*.

III.2 – The Scope, the Coverage of Financial Statements

Separate Financial Statements

The definition of the scope of an accounting system is linked to the existence of a legal entity, even though this criterion cannot apply to all cases. The definition of the scope of the central government's financial statements also needs to be based on this approach. This scope encompasses all of the central government departments, establishments and institutions that are not incorporated as separate legal entities. On the whole, this corresponds to the entities and departments where the operating resources are authorised and described in the Budget Act, including special accounts and specific budgets. It does not include public establishments and similar bodies that are incorporated as separate legal entities.

Consequently, all of the transactions carried out by the entities falling within the scope of the central government's financial statements (including such entities as public authorities and independent administrative authorities) that create or change rights and obligations must be integrated into the central government's general-purpose financial statements in compliance with the specific rules of these statements, even when these entities receive block budget appropriations and keep and publish financial statements for their own purposes. In practice, there is no reason why these special accounting systems cannot be used in compiling the general-purpose financial statements, as long as they apply the same principles or else it is possible to make the necessary restatements.

The financial statements produced by the entities falling within the scope of the central government's financial statements are referred to as the "separate financial statements" of the central government. The following Standards set the procedures for drawing up these statements, which are the key building blocks for all further developments. The production of these financial statements represents a decisive improvement over the current situation.

Consolidated or Combined Financial Statements

The scope defined above means that the central government's financial statements record all of the transactions affecting the assets and liabilities attributed to the entities falling within the scope, along with the expenses and revenues relating to these entities. However, the central government has the power to direct the activities of other entities that are incorporated as separate legal entities under the terms of various provisions. This power may stem from ownership of controlling stakes in companies or from the fact that the central government owns national public establishments, or else from the fact that it provides most of the financing for entities incorporated as private sector companies to carry out tasks assigned and supervised by the government.

In all of these cases, the government makes indirect use of these entities' resources to implement its policies and it indirectly bears the de jure and/or de facto responsibility for their obligations. In the central government's separate financial statements, these entities are treated as equity investments. But these statements provide only a highly aggregated view of all the rights and obligations. For a more comprehensive view, consolidated and/or combined financial statements need to be produced.

Defining the consolidation and combination structures in the case of the central government raises many questions because of the special rules under public law or administrative law and because the government has the power (subject to constitutional limits) to change the rules. The notions of control and joint interest used to define these structures need to be defined carefully to distinguish them from the government's power to change the very framework within which it deals with other agents.

This is particularly important when examining the situation in terms of obligations rather than rights. The corollary of this power is, in a sense, the government's role as the "last resort" source of funds. This means its political and social obligation to cover unforeseen expenses through stopgap measures or on a more permanent basis as events that are not related to the central government's ordinary activities occur.

Even though the definition of control that is generally used in consolidation rules can be applied in the case of the central government, it needs to be explained carefully with regard to this characteristic. The concepts of joint interest and close relationships used to define combination structures in addition to consolidation structures also need to be explained.

These issues do not fall within the purpose of this framework, which is intended to set the standards required for drawing up separate financial statements. However, there are two reasons for mentioning them here.

First, the production of consolidated financial statements is an important objective in the medium term, which calls for the definition of adequate standards.

And, secondly, the standard on recognising equity investments in the separate financial statements needs to define its scope in a way that is consistent with this approach so as to provide aggregated, but relevant information on the relationships between the central government and the controlled entities.

III.3 – The Main Concepts

Assets

An asset is a net worth item that has a positive economic value for the central government, meaning that it is a resource controlled by the government that is expected to produce economic benefits in the future. The future economic benefits for the government mean either cash flows accruing to the government from the use of the asset or the potential production of services expected from the use of the asset for the benefit of the government or others in keeping with its tasks or purpose.

In the central government's separate financial statements, the control over the resource is to be understood as direct control, meaning direct control of the asset by entities within the central government structure. Therefore, assets controlled by entities that are incorporated as separate legal entities under the control of the central government are not tracked as such in the central government's separate financial statements.

Liabilities

A liability is an obligation towards another entity recognised on the reporting date, which is likely or certain to entail an outflow of resources to the said entity without anything being expected from this party in exchange after the reporting date.

Financial Position

The financial position is the net difference between assets and liabilities.

Expenses

An expense is a decrease in assets or an increase in liabilities that does not cause the corresponding arrival of a new asset or a decrease in liabilities. Expenses correspond either to the consumption of resources in the production of goods or services, or to an obligation to make an irrevocable payment to another entity that has no direct counterpart in the financial statements.

Revenues

Revenue is an increase in assets or a decrease in liabilities that is not offset by the corresponding outflow of an asset or an increase in liabilities. In the case of the central government, there is a distinction made between sovereign revenues and revenues from sales of goods and services, revenues from investments in financial assets and revenues from user fees. Sovereign revenues constitute the central government's main source of funds. In principle, sovereign revenues are not matched to expenses, unlike other revenues, which can usually be matched to expenses.

Sovereign revenues result from the compulsory levies authorised under applicable legislation. They do not result from contractual obligations. They could be seen as revenues derived from intangible assets linked to the exercise of sovereign powers (the right to levy taxes and to impose and collect fines), but these powers do not meet all of the requirements to be recognised as assets. Thus, the revenues that could be linked to them fall into a special category.

III.4 – Accounting Treatment Rules

The accounting treatment rules set the procedures for recording transactions and events that affect the financial position in the financial statements. These procedures determine the event giving rise to the accounting entry and which category it falls into under the accounting classification.

The event giving rise to the entry is the criterion that determines in which year's financial statements it is to be recorded, making it the accrual criterion. This criterion may be different from the event giving rise to the entry in the entity's financial statements, which depends on the entity's own structure. This structure is not governed by these provisions. However, the structure should make it possible to record events in specific financial years in compliance with these provisions.

The general accrual principle is the creation of a right or obligation or a change in their nature or in their value during the financial year in question. These various elements are tracked for the different categories of assets, liabilities, expenses and revenues and recorded in the financial statements for the year in which the control over the future economic benefits is acquired, the obligations are created and the risks are incurred.

Assets

Assets are recorded in the financial statements for the year in which the government acquires control over the future economic benefits or service potential. Control is usually based on a right (ownership or right of use).

Ownership is not enough to establish control. Thus, when the government transfers control of goods that it owns to separate entities, these goods are not recorded in the central government's financial statements. Likewise, when the government has long-term use of goods that it does not own, these goods are recorded in its financial statements as long as it has control of them. Control of the good is assessed in this case according to the conditions of use: power to decide on use, responsibilities, expenses and risks related to this power.

Assets include fixed assets and current assets. Fixed assets include intangible, tangible and financial assets, along with the associated claims. Current assets include inventories, claims related to current assets and cash.

Intangible assets raise a special accounting problem. This is because no assets representing sovereignty are recorded in the financial statements, since it is impossible to identify such assets separately and to

make an adequate valuation. The distinction made between intangible assets to be recorded in the financial statements and assets representing the exercise of sovereign powers is based on an analysis of the corresponding revenues.

Liabilities

Liabilities are recorded in the financial statements for the year in which the related obligations arise. These obligations may stem from regulations or contracts. They may also stem from the control of an asset when it is certain or likely that this control will entail an outflow of resources to the owner of the asset. In this case, the obligation must be considered as a requirement for establishing the existence of control.

Revenues

Revenues are recorded in the financial statements for the year in which they were acquired. This usually corresponds to the delivery of a good or the performance of a service when recording sales revenues. Sovereign revenues are recorded when collection is authorised and when the amounts can reliably be established.

We should keep in mind the distinction between sovereign revenues, derived from the exercise of sovereign powers even though the corresponding intangible assets are not recorded in the financial statements, and the revenues derived from intangible assets that need to be recorded in the financial statements. Sovereign revenues are not collected in exchange for the production of goods or services or for making specific assets available for use. Other revenues are linked to specific assets and we can come up with an accurate valuation for them, even though these revenues are derived from providing assets that are in the public domain.

This means that there are two ways of analysing a new revenue stream that does not correspond to the sale of goods or services, intervention revenue or revenue from making a previously recognised asset available for use.

- Either there is a specific exchange, which is usually set out in a contract, for the party paying the revenue. In this case, the revenue is derived from making an asset available for use. If the arrangement means that the government is likely or certain to receive revenues in the future, an intangible asset needs to be recorded in the financial statements.
- Or it is impossible to identify such an exchange of goods, services or a right to use an asset. In this case, the revenue is a tax or a similar levy and it is recorded as sovereign revenue.

Expenses

Expenses are recorded in the financial statements for the year in which they were consumed.

For such expenses as compensation paid or purchases of services, the event giving rise to the expense corresponds to the rule of service rendered. The delivery of goods purchased determines the time of recording and the inventory records help distinguish between purchases consumed and purchases carried in inventory, according to the types of goods involved. Expenses for transfer expenditures (subsidies, social benefits) are recorded in the financial statements for the year in which the beneficiaries' entitlement to the transfers is established.

Expenses are recorded and presented in the financial statements by their economic nature, with a further breakdown by Ministry, task and programme.

III.5 – Valuation Rules

The valuation rules determine the value at which items are first recorded in the financial statements and their value on the reporting date.

Initial Cost and Carrying Amount, Usual Case

The initial costs are based on the acquisition costs, except in some special cases.

The value on the reporting date is determined by comparing the recoverable amount of each asset and liability on the reporting date to its initial amount, with such adjustments as necessary for depreciation and impairment losses (net carrying amount) and then using the lower of the two values. If the recoverable amount is lower than the net carrying amount, then the latter is adjusted to the recoverable amount by recording an extra allocation for depreciation, if the loss in value is irreversible, or an impairment loss if the loss is considered reversible.

The recoverable amount is the greater of the net selling price or the value in use. The net selling price is the amount that could be obtained on the reporting date for the sale of the asset in an arm's length transaction, less disposal costs. The value in use of an asset is the recoverable amount of the future economic benefits expected from its use and its disposal. In the case of public sector assets that do not produce cash flows, the value in use is determined with regard to the expected service potential.

A depreciable asset is an asset for which the conditions of use and useful life can be determined. The initial costs for tangible assets such as plant and equipment (vehicles, computers, furniture, etc.) are usually known and can easily be established. If not, these assets are depreciated according to their use. Depreciation is backed up by suitable impairment tests.

The depreciation schedule usually calls for a measurement of the future economic benefits or, failing that in the case of assets held by public sector entities, the potential volume of services expected from the use of the asset. The "depreciation schedule details the allocation of the depreciable value of the asset as the expected economic benefits are consumed through the use that is likely to be made of it"². Usually, the future economic benefits and, by extension, the service potential, are equal to the acquisition cost at the time the asset is first recorded on the statement of financial position.

Impairment tests are conducted to ensure that the net carrying amount at each reporting date is at least equal to the residual economic benefits and service potential. These rules should apply to all assets when the acquisition cost is known or can be determined and when reliable projections of consumption of the economic benefits or service potential can be made.

Special Cases Involving Certain Tangible and Financial Assets

Property and Infrastructures

For some fixed assets, such as property and some infrastructures, the usual method assumes that the initial value is known. This assumption is not borne out in many important cases.

Therefore, a valuation must be made for the first financial statements drawn up according to the new Standards. These assets fall into two categories: assets for which a net selling price can be determined (e.g. office space) and assets for which a net selling price is not observable (e.g. roads), even though such a price could theoretically exist. If the net selling price can be determined, it shall be used as the initial cost. In other cases, appropriate alternative methods shall be defined in the Standard, such as the depreciated replacement cost.

When special valuation procedures are used, the further treatment involves:

- either depreciation over the likely useful life of the asset, which will call for impairment tests for each case;
- or an expense representing the consumption of service potential.

² Accounting Regulation Committee Regulation 2002-10 of 12 December 2002 on depreciation and write-downs of assets.

When buildings are carried at their net selling price, the fact that such a price exists usually means that the buildings can be used for other purposes that are not specific to the central government's activities. Such assets are deemed to be non-specialised if they can be sold to other entities for comparable or different uses, subject to limited remodelling. This characteristic also makes them impossible to define in terms of service potential. In this case, the depreciation schedule can only be drawn up on the basis of a generally accepted useful life span. In the case of older buildings, the useful life span has no relation to reality, unless we use extremely long life spans that render the depreciation amounts negligible.

The wide range of ages of such assets means that straight-line depreciation over a generally accepted life span is not a very satisfactory solution. The drawback of this method is that it would depreciate ancient assets that are still used in the performance of the central government's usual tasks using the same depreciation rules as those used for recent assets. The useful life span under these rules would fail to cover the actual age of these assets. Furthermore, the date on which they are first recorded in the financial statements is necessarily an arbitrary choice that has a major impact on future depreciation. This means it is bound to be difficult to come up with an uncontested solution. Finally, the residual value is usually quite high, even though it cannot be reliably determined.

The consumption of service potential can only be measured on the basis of net selling price. The consumption is expressed by recording an annual expense for use of the asset. The values at the reporting date will be adjusted directly in the financial position to match the net selling price at the reporting date, except if the decrease in value is caused by a loss of the tangible substance of the asset.

Equity Investments

The central government owns a portfolio of shares in companies. These shares are generally held as long-term investments.

But, the central government also "owns" many other entities and enterprises that have not been incorporated as companies. The ownership rights depend on the status of these entities and are covered by public law. These entities are assets that must be included when determining the financial position. As in the case of government properties, the acquisition costs for some of them are not known or meaningless because of the vague legal status of the assets used by such entities. The lack of a clear and, more importantly, comprehensive definition of the relationships between the central government and many of its "subsidiaries" obviously has an impact on the financial statements, including the financial statements of the said subsidiaries.

Valuation of these equity investments according to the general rules and the straightforward transposition of these rules to other entities in which the central government holds rights is likely to lead to differing amounts that are not really meaningful. In order to ensure consistent accounting treatment of these items, they are valued using the equity method³. Some modifications are required to adapt this method to the specific features of these entities.

³ This method values the shares held each year according to the portion of the entity's equity represented by the shares, subject to certain conditions and restatements that it is pointless to discuss at this stage.

STANDARD 1

FINANCIAL STATEMENTS

STANDARD 1 – FINANCIAL STATEMENTS

INTRODUCTION

This Standard sets out the structure and form for financial statements using business accounting as a model, with due consideration for the specific features of the central government.

I – THE RATIONALE FOR DRAWING UP FINANCIAL STATEMENTS

The financial statements are one of the main sources of facts and figures on the central government's financial situation. They are summary documents that enable us to assess and analyse changes in the situation and measure costs.

The financial statements make comparisons possible over a three-year period. However, when this Standard is first applied, the financial statements will be drawn up for two years only. Later on, they will present the figures for three years.

I.1 – Central Government Balance Sheet: the Statement of Financial Position

The central government balance sheet is presented as a statement of financial position. Like an ordinary business balance sheet, it presents the assets and liabilities that have been identified and recorded in the statements. The statement of financial position is presented as a list. It is drawn up at the reporting date.

The items in the statement of financial position are:

- *assets, which are a list of the balance sheet items with a positive economic value for the central government. The list primarily includes fixed assets, current assets, accruals and deferred revenues for the financial year.*
- *liabilities, which are obligations towards other entities recognised on the reporting date. Liabilities are obligations that are likely or certain to entail an outflow of resources to the other entities without anything being expected in exchange from these entities after the reporting date. Liabilities include provisions for risks and liabilities, financial debts, non-financial debts, other liabilities, accruals and deferred expenses for the financial year.*

In addition, the statement of financial position has two specific features:

- *It shows separate “cash” items on both the assets and liabilities sides.*
- *It shows a “financial position” item that cannot be compared to the shareholders' equity in a business since there is no initial capital amount or anything equivalent to it.*

I.2 – The Central Government Surplus/Deficit Statement: a Net Expenses Statement, a Net Sovereign Revenues Statement and a Net Operating Surplus/Deficit Statement for the Period

The usual presentation of the surplus/deficit statement, which includes all expenses and revenues for the year, has been broken up into three statements:

- *The net expenses statement breaks down expenses for the year by their nature. It shows the total amount of net expenses that are not covered by revenues from corresponding activities during the year.*
- *The statement of net sovereign revenues broken down by category (taxes and other sovereign revenues) shows the revenues arising from the exercise of central government's sovereign powers during the year, with no direct equivalent exchange for other parties. The revenues shown in this table are net sovereign revenues after deducting the central government's tax liabilities and settlement*

decisions that reject the validity of previously recorded tax claims (tax refunds and other claims cancelled following errors).

- *The operating balance table for the year, which shows the difference between net expenses and net sovereign revenues.*

For cost analysis purposes, the net expenses table lists all of the expenses and revenues to be examined when conducting cost analysis.

1.3 – Cash Flow Statement

The central government’s cash position is made up of assets (cash in hand, other cash and cash equivalents) and liabilities (deposits of Treasury correspondents and other authorised persons, other cash items).

The cash flow statement presents the inflows and outflows relating to these items for the year and classifies them by category:

- *cash flows from operating activity, which correspond to receipts and payments linked to transactions and intervention (except for investments) and other receipts and payments that can be linked to operating activity, such as cash flows corresponding to financial expenses and revenues;*
- *cash flows from investment transactions, which correspond to receipts and payments stemming from the acquisition and disposal of fixed assets;*
- *cash flows from financing transactions, which correspond to receipts and payments stemming from the central government’s external financing transactions.*

This Standard classifies cash flows from interest and dividends received and paid as cash flows from operating activity. This presentation makes it easier to compare budget accounts and general-purpose financial statements. The idea is to link cash flows from operating and investing activities to budget transactions and to link cash flows from financing activity to non-budgetary cash transactions.

The notions of receipts and expenditures are used in the cash flow statement to distinguish these flows from revenues and expenses, since the flows recorded in this statement represent the revenues that the central government has collected and the expenses that it has paid during the financial year.

1.4 – Notes to the Financial Statements

The notes are an integral part of the financial statements. They provide all of the information needed for understanding and interpreting the data in the main financial statements.

This Standard sets out the principles for drawing up the notes and defines their content.

The presentation of the notes is inspired by the presentation used for corporate financial statements. The data in the summary statements that are explained further in the notes are numbered to facilitate reference to the corresponding comments and tables in the notes.

Furthermore, the dual system, with cash-based budget accounts and accrual-based financial statements (Article 27 or the Constitutional bylaw) means that transition tables are included in the notes to identify differences between the two types of accounts.

II – POSITION WITH REGARD TO OTHER ACCOUNTING STANDARDS

This Standard draws its inspiration from the following accounting standards:

- *With regard to the statement of financial position and the cash flow statement, the Standard complies with*

the French Plan comptable (French Accounting Regulation Committee Regulation 99-03 of 29 April 1999 appended to the order of 22 June 1999, updated by French Accounting Regulation Committee Regulation 2000-06 of 7 December 2000), IASB⁴ International Accounting Standards (IAS 1 and IAS7) and IFAC⁵ Public Sector Committee Standards (IPSAS 1 and IPSAS 2) as well as the order of 22 June 1999 approving French Accounting Regulation Committee Regulation 99-02 of 29 April 1999 on the consolidated financial statements of commercial companies and public enterprises;

- *with regard to the net expenses statement, the sovereign revenues statement and the net operating surplus/deficit statement, the Standard draws its inspiration from foreign financial statement models that are not covered by any of the existing accounting standards mentioned above.*

⁴ *International Accounting Standards Board*

⁵ *International Federation of Accountants*

STANDARD 1 – FINANCIAL STATEMENTS

STANDARDS

The financial statements shall include:

- the balance sheet in the form of a statement of financial position;
- the surplus/deficit statement presented in three parts: a net expenses statement, a net sovereign revenues statement and a net operating surplus/deficit statement for the period;
- the cash flow statement;
- the notes to the financial statements.

1. STATEMENT OF FINANCIAL POSITION

	YEAR N			YEAR N-1	YEAR N-2
	Gross	Depreciation Impairment losses	Net	Net	Net
FIXED ASSETS					
Intangible assets					
Tangible assets					
Financial assets					
Total fixed assets					
CURRENT ASSETS (excluding cash)					
Inventories					
Claims					
Sovereign revenues receivable					
Customer receivables					
Other claims					
Prepaid expenses					
Total current assets (excluding cash)					
CASH					
Cash in hand					
Other cash items					
Cash equivalents					
Total cash					
Accruals and deferred revenues					
TOTAL ASSETS (I)					
FINANCIAL DEBTS					
Negotiable securities					
Non-negotiable securities					
Other borrowing					
Total financial debt					
NON FINANCIAL DEBT (excluding cash)					
Operating debt					
Intervention debt					
Prepaid revenues					
Other non-financial debt					
Total non-financial debt					
PROVISIONS FOR RISKS AND LIABILITIES					
Provisions for risks					
Provisions for liabilities					
Total provisions for risks and liabilities					
OTHER LIABILITIES (excluding cash)					
Total other liabilities					
CASH					
Treasury correspondents and authorised persons					
Others					
Total cash					
Accruals and deferred expenses					
TOTAL LIABILITIES (excluding financial position) (II)					
Carried forward from previous years					
Revaluation and integration differences					
Operating surplus/deficit for the period					
FINANCIAL POSITION (III=I-II)					

2. NET EXPENSES STATEMENT, NET SOVEREIGN REVENUES STATEMENT AND NET OPERATING SURPLUS/DEFICIT STATEMENT FOR THE PERIOD

NET EXPENSES STATEMENT		YEAR N	YEAR N-1	YEAR N-2
NET OPERATING EXPENSES	Staff costs Purchases, changes in inventories and external services Allocations for depreciation, provisions and impairment losses Other operating expenses			
	Total direct operating expenses (I)			
	Subsidies for public service expenses Allocations to provisions			
	Total indirect operating expenses (II)			
	Total operating expenses (III=I+II)			
	Sales of goods and services Inventories of finished goods and work in progress Reversals of provisions and impairment losses Other operating revenues			
	Total operating revenues (IV)			
TOTAL NET OPERATING EXPENSES (V=III-IV)				
NET INTERVENTION EXPENSES	Transfers to households Transfers to businesses Transfers to local authorities Transfers to other entities Expenses arising from government guarantees Allocations to provisions and impairment losses			
	Total intervention expenses (VI)			
	Contributions from other entities Reversals of provisions and impairment losses			
	Total intervention revenues (VII)			
TOTAL NET INTERVENTION EXPENSES (VIII=VI-VII)				
NET FINANCIAL EXPENSES	Interest Exchange rate losses on financial transactions Allocations for depreciation, to provisions and impairment losses Other financial expenses			
	Total financial expenses (IX)			
	Revenue from claims related to fixed assets Exchange rate gains on financial transactions Reversals of provisions and impairment losses Other interest and similar revenues			
	Total financial revenues (X)			
TOTAL NET FINANCIAL EXPENSES (XI=IX-X)				
TOTAL NET EXPENSES (XII=V+VIII+XI)				

NET SOVEREIGN REVENUES STATEMENT	YEAR N	YEAR N-1	YEAR N-2
Personal income tax Corporate income tax Payroll tax Oil tax Value added tax Stamp duties, other contributions and indirect taxes Other tax and similar revenues			
TOTAL NET TAX REVENUES (XIII)			
Fines and other penalties			
TOTAL OTHER SOVEREIGN REVENUES (XIV)			
TOTAL NET SOVEREIGN REVENUES (XV = XIII+XIV)			

NET OPERATING SURPLUS/DEFICIT STATEMENT FOR THE PERIOD	YEAR N	YEAR N-1	YEAR N-2
Net operating expenses (V) Net intervention expenses (VIII) Net financial expenses (XI)			
NET EXPENSES (XII)			
Net tax revenues (XIII) Other net sovereign revenues (XIV)			
NET SOVEREIGN REVENUES (XV)			
OPERATING SURPLUS/DEFICIT FOR THE PERIOD (XV-XII)			

3. CASH FLOW STATEMENT

CASH FLOW STATEMENT		YEAR N	YEAR N-1	YEAR N-2
CASH FLOWS FROM OPERATING ACTIVITY	RECEIPTS Receipts from sales of goods and services Other operating receipts Receipts from taxes Other sovereign receipts Intervention receipts Receipts from interest and dividends Other receipts PAYMENTS Staff expenditures Purchases and external services expenditures Tax refund expenditures Other operating expenditures Subsidies for public service expenses Intervention expenditures Payments arising from government guarantees Interest paid Other payments			
	NET CASH FLOWS FROM OPERATING ACTIVITY (I)			
CASH FLOWS FROM INVESTING ACTIVITY	ACQUISITIONS OF FIXED ASSETS Tangible and intangible assets Financial assets FIXED ASSET DISPOSALS Tangible and intangible assets Financial assets			
	NET CASH FLOWS FROM INVESTING ACTIVITY (II)			
CASH FLOWS FROM FINANCING ACTIVITY	DEBT SECURITIES ISSUANCE Treasury bonds (OAT) Treasury notes (BTAN) Treasury bills (BTF) REDEMPTION OF DEBT SECURITIES (EXCLUDING BTF) <i>Negotiable securities</i> TREASURY BONDS (OAT) TREASURY NOTES (BTAN) <i>Non-negotiable debt securities</i> CASH FLOWS FROM DERIVATIVE FINANCIAL INSTRUMENTS			
	CASH FLOWS FROM FINANCING ACTIVITY (III)			
CHANGE IN CASH POSITION (IV=I+II+III=VI-V)				
CASH POSITION AT BEGINNING OF PERIOD (V)				
CASH POSITION AT END OF PERIOD (V)				

4. NOTES TO THE FINANCIAL STATEMENTS

The notes shall be an integral part of the financial statements. They cannot be substituted for the summary statements that they supplement and explain. They shall be subject to the same audit requirements as the other summary statements.

4.1 PRINCIPLES FOR DRAWING UP THE NOTES

The information in the notes must:

- contribute to providing a true and fair view of the assets, financial position, surplus/deficit of the central government with details that explain or clarify the content of certain items in the summary statements.
- provide all the material information that is likely to influence the decisions of users. For this purpose, the notion of a materiality threshold for information may be a determining factor in disclosure choices. The threshold shall be set according to the materiality of information for users of the financial statements. Information is deemed to be material if failure to disclose it could change the users' judgment with regard to the central government's assets and financial position.

4.2 – CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

The notes shall be an organised and systematic presentation of facts and figures. They must present:

- the accounting valuation rules and methods, along with any changes in valuation methods or presentation of the statements.
- information with details about the amounts shown in the statement of financial position, the net expenses statement, the net sovereign revenues statement and the cash flow statement. The detailed information shall cover:
 - changes in assets and liabilities over the period;
 - details about tangible , intangible and financial assets, staff costs, etc.;
 - information about the calculation of provisions for risks and liabilities, the breakdown of these provisions by categories and their maturities;
 - information about the central government work force;
 - the transition from gross sovereign revenues to the revenues recorded in the net sovereign revenues statement;
- information that is not presented in the financial statements but which needs to be disclosed in the notes, such as commitments to be disclosed in the notes or impairment losses on claims collected by the central government on behalf of third parties where the government does not bear the risk of non-payment;
- information on the linkage of accrual-based general-purpose financial statements to cash-based budget accounts.

STANDARD 1 – FINANCIAL STATEMENTS

EXAMPLES

The tables presented below are intended to illustrate the requirements relating to the notes to the financial statements. These tables are illustrative only. They do not cover all cases and they are not part of the Standards.

I - TANGIBLE ASSETS

Tangible assets by category and by ministry (Categories are illustrative and not comprehensive)

Year	Non-specialised land		Non-specialised buildings		Equipment		Infrastructures		Specialised buildings	
	N	N-I	N	N-I	N	N-I	N	N-I	N	N-I
Starting balance	Market value		Market value		acquisition cost > x euros		Present replacement cost		Token euro or replacement cost	
Acquisitions									If cost is known	
Capital work in progress										
Disposals										
Depreciation					depreciation				work in progress	
Revaluations (+) or (-)	annual revaluation		annual revaluation				annual revaluation			
Loss in value					Impairment test if evidence of a loss in value					
Ending balance										
Accumulated revaluation surplus (+)										
Accumulated revaluation decrease (-)										
Gross carrying amount										
Accumulated depreciation										work in progress
Net carrying amount = ending balance										

Commentary:

Starting balance + (acquisitions – disposals (accumulated)) + accumulated revaluation surplus and decrease = gross carrying amount. Net carrying amount is carried forward each year as the starting balance for the next year.

Starting balance + acquisitions + work in progress – disposals – depreciation + or – revaluation differences – loss in value = ending balance = net carrying amount = gross carrying amount – accumulated depreciation.

Leases by category and by ministry (Categories are illustrative and not comprehensive)

FINANCE LEASES	Land		Non-specialised buildings		Equipment	
	<i>N</i>	<i>N-1</i>	<i>N</i>	<i>N-1</i>	<i>N</i>	<i>N-1</i>
<i>Finance leases (NCA on reporting date)</i>						
<i>Total minimum lease payments for leases up to 1 year</i>						
<i>Present value</i>						
<i>Total minimum lease payments for lease between 1 and 5 years</i>						
<i>Present value</i>						
<i>Total minimum lease payments for lease of 5 years or more</i>						
<i>Present value</i>						

II – PROVISIONS FOR RISKS AND LIABILITIES,

<i>Provisions for risks</i>	<i>Starting amounts</i>	<i>Allocations for the year</i>	<i>Reversals during the year</i>		<i>Ending amounts</i>
			<i>Reversal of used provisions</i>	<i>Reversals of unused provisions</i>	
<i>Provisions for risks 1</i>					
<i>Provisions for risks 2</i>					
...					
<i>Total</i>					
<i>Provisions for liabilities</i>	<i>Starting amounts</i>	<i>Allocations for the year</i>	<i>Reversals during the year</i>		<i>Ending amounts</i>
			<i>Reversal of used provisions</i>	<i>Reversals of unused provisions</i>	
<i>Provisions for liabilities 1</i>					
<i>Provisions for liabilities 2</i>					
...					
<i>Total</i>					

III - DEBT**Statement of changes in borrowing**

	<i>Starting amount</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending amount</i>
Negotiable euro-denominated debt				
<i>Fixed-rate debt</i>				
<i>Variable-rate debt</i>				
Negotiable debt denominated in foreign currencies				
<i>Fixed-rate debt</i>				
<i>Variable-rate debt</i>				
Non-negotiable debt				
...				
Total				

Increases

	<i>Issuance</i>		<i>Exchanges through conversion</i>	<i>Index-linking differential</i>	<i>Interest</i>			<i>Totals</i>
	<i>With receipt of funds</i>	<i>Without receipt of funds</i>			<i>Capitalisation</i>	<i>Accrued interest</i>	<i>Prepaid interest</i>	
Negotiable euro-denominated debt								
<i>Fixed-rate debt</i>								
<i>Variable-rate debt</i>								
Negotiable debt denominated in foreign currencies								
<i>Fixed-rate debt</i>								
<i>Variable-rate debt</i>								
Non-negotiable debt								
...								
Totals								

Including expenses arising from index-linking of bonds

Decreases

	Redemptions	Cancellation of issued securities without receipt of funds	Buybacks	Exchanges through conversion	Index-linking differential	Interest			Totals
						Capitalisation	Accrued interest	Prepaid interest	
Negotiable euro-denominated debt									
Fixed-rate debt									
Variable-rate debt									
Negotiable debt denominated in foreign currencies									
Fixed-rate debt									
Variable-rate debt									
Non-negotiable debt									
...									
Totals									

Statement of changes in the Premium and Discount Item

	Starting amount	Increases (at issue)	Decreases	Ending amount
Premiums				
Discounts				
Total				

Maturity Table

Items	Amounts	Maturities		
		Less than 1 year	More than	
			1 year	5 years
Negotiable euro-denominated debt				
Fixed-rate debt				
Variable-rate debt				
Negotiable debt denominated in foreign currencies				
Fixed-rate debt				
Variable-rate debt				
Non-negotiable debt				
...				
Total				

IV – STAFF COSTS

<i>Staff costs</i>	<i>Amounts for year N</i>	<i>Amounts for year N-1</i>
<i>Compensation of employees</i>		
<i>Social security charges, retirement contributions and direct taxation</i>		
<i>Direct benefits from employer (excluding pensions)</i>		
<i>Pensions</i>		
<i>Other social contributions</i>		

STANDARD 2

EXPENSES

STANDARD 2 – EXPENSES

INTRODUCTION

This Standard defines the central government’s expenses and sets the rules for the accounting treatment and valuation of these expenses.

I – SPECIAL CHARACTERISTICS OF CENTRAL GOVERNMENT EXPENSES

The Standard relating to expenses reconciles the requirements for general-purpose financial statements with those for budget accounting. It creates a link between the accounting structure for expenses and the budget structure for expenditures, classified by classes and categories, as stipulated in Article 5 of the Constitutional bylaw. A common classification level has thus been defined. It provides a simple and not rigorous linkage between expenses recorded in the financial statements and budget expenditures. Some expenses, such as allocations for depreciation, provisions and impairment losses or discounts on loans, have no impact on the budget. On the other hand, transfers of funds between the general budget and the special accounts or specific budgets are not recorded in the financial statements, even though they are recorded under the corresponding items in the budget accounting system. Furthermore, some operating expenses are not treated as operating expenditures in the budget, where taxes and similar payments on compensation of employees are treated as staff expenditures.

The Standard identifies the following special characteristics of central government expenses:

- *“subsidies for public service expenses” classified as operating expenses;*
- *“intervention expenses”;*
- *the scope of central government financial expenses;*
- *the lack of a category for exceptional or extraordinary expenses for the central government.*

I.1 – Subsidies for Public Service Expenses

Central government operating expenses include direct operating expenses and indirect operating expenses, which correspond to subsidies for public service expenses.

“Subsidies for public service expenses” are payments that the central government makes to operators participating in the implementation of direct government policies to cover their operating expenses. Standard 7 (paragraph 1.2.2.1) on central government financial assets defines these operators. Subsidies for public service expenses constitute a special category called indirect operating expenses.

I.2 – Intervention Expenses

I.2.1 – Definition

“Intervention expenses” are payments made as part of the central government’s task of economic and social regulation. They correspond primarily to transfers with no direct counterpart shown in the financial statements (e.g. payments relating to social or economic measures).

Transfers are financial expenses that are really borne by the central government itself. They include:

- *transfers of receipts (budgetary notion) to local and regional authorities which are central government expenses (block grants to local and regional authorities made under the terms of decentralisation legislation, payments made under equalisation and redistribution measures, compensation for tax revenues lost as a result of central government decisions and various financial*

incentives, such as the incentives to promote the pooling of municipal services and facilities). These expenses are recorded under the “transfers to local and regional authorities” item;

- *transfers of receipts (budgetary notion) to the European Communities which represent France’s payment of its contributions and therefore correspond to an expense for the country (European Union supplementary resource based on GNP and financial contributions from the VAT) and transfers of receipts to the Guarantee Fund for external actions. These transfers are recorded under the “transfers to other entities” item;*
- *settlement decisions cancelling claims arising from local direct taxes for which that central government assumes the risk of failure to pay. These transfers are recorded under the “transfers to local and regional authorities” item (write-offs, tax relief and other rebates – see Standard 9 on claims related to current assets).*

On the other hand, the transfers do not include payment of receipts that the central government collects on behalf of other entities and for those central government does not assume risk (for example, traffic fines collected by central government and received by local and regional authorities or customs resources which are receipts specific to the European Union. Operations performed on behalf of other entities are recorded in the statement of financial position of central government. They have no impact on the surplus/deficit, other than any costs involved in collecting such receipts.

1.2.2 – Designated Beneficiaries

The Constitutional bylaw clearly identifies the beneficiaries of the transfers. The beneficiaries are households, businesses, local and regional authorities and other entities. The same categories are used for the accounting classification of the transfers. The Standard stipulates four categories of beneficiaries and defines them as follows:

- *The Standard applies the definitions from the system of national accounts for “households” and “enterprises”, except that the Standard classifies sole proprietorships as enterprises. The objective is to make households consumption units and enterprises production units for goods and services, regardless of their legal structure;*
- *In its definition of “local and regional authorities”, the Standard, unlike administrative law, does not distinguish between two categories of legal entities incorporated under public law, in addition to the central government: incorporated local and regional authorities with territorial responsibilities and legal entities with functional or technical responsibilities. Some public establishments, such as hospitals, are incorporated as legal entities with technical responsibilities, but are responsible for a given territory. On the opposite side, there are structures for pooling facilities and services between municipalities that are also incorporated as public establishments. There are also some public establishments that currently receive the same financial support as local authorities per se. Therefore, it is difficult to exclude these entities from the “local and regional authorities” definition, since the restatement of the aggregate amount of support by type of beneficiary would be a complex exercise that does not produce any substantial benefits.*

Consequently, the definition of “local and regional authorities” includes:

- *local and regional authorities per se, meaning regions, départements and communes, along with public establishments for cooperation;*
- *public establishments with territorial responsibilities (public establishments for healthcare, social work, medical and social services, construction and education);*
- *special establishments receiving transfers similar to those made to local and regional authorities per se.*

- *The definition of “other entities” covers the entities that do not fit the definitions of the categories above. Such entities include:*
 - *entities incorporated under public law, such as public interest groupings, national public establishments, social welfare bodies such as the national social security funds, etc.;*
 - *entities incorporated under company law, such as non-profit institutions serving households under the definition given in the system of national accounts rules. These entities are associations, foundations, religious groups, etc.;*
 - *entities with status under international law, including European institutions, such as the European Union or the European Development Fund, along with foreign and international institutions, including the United Nations entities.*

I.2.3 – End Beneficiary Principle

The beneficiaries of transfers are the entities explicitly designated as the end recipient of a transfer. The end beneficiary is the target of a given public policy measure or system for transfers paid directly by central government departments or for indirect transfers made through redistribution bodies. Such bodies are most often operators for central government policies.

For example, a transfer to the national employment agency (ANPE) under a measure to promote the re-entry of the jobless in the job market is an indirect transfer. The beneficiaries of the transfer are:

- *“households” in the case of the benefits that the national employment agency pays to the unemployed covered by the measure;*
- *“enterprises” in the case of the support paid to employers to promote hiring.*

I.3 – Central Government Financial Expenses

Central government financial expenses encompass financial assets, financial debt, derivative financial instruments and the central government cash position.

For the sake of consistency between the budget and the financial statements, the Standard classifies certain items, such as penalties for late payments or exchange rate losses on ordinary management transactions, as operating expenses.

I.4 – The Notion of Exceptional or Extraordinary Expenses for the Central Government

International Accounting Standards mention the notion of extraordinary expenses, but not that of exceptional expenses found in the French Plan comptable. This analysis has been transposed to the central government and the “extraordinary-ordinary” approach has prevailed over the “exceptional-current” approach.

The IASB defines extraordinary expenses by contrasting them with ordinary expenses⁶. Extraordinary expenses arise from events or transactions that are clearly distinct from the ordinary activities of the entity and are not expected to recur frequently or regularly. The nature of the event or transaction, and not the frequency with which such events are expected to recur, is what determines whether an event or transaction is distinct from ordinary activities. Therefore, events or transactions that give rise to an extraordinary item are extremely rare.

The IFAC Public Sector Committee supplemented this definition with two additional criteria:

- *the criterion of non-recurrence of an event or transaction in the foreseeable future, which states that the event or transaction is deemed to be extraordinary if the frequency of its recurrence in the foreseeable future is low;*

⁶ *Ordinary expenses are related to the activities that are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from these activities.*

- *the criterion of control or influence of the entity, which states that any event or transaction that is outside of the control or influence of the entity is deemed to be extraordinary. The IFAC considers that events and transactions are outside of the control or influence of an entity when the decisions or resolutions of the entity have no influence over the occurrence of the transaction or the event.*

However, when we apply the IFAC criteria to the central government, we see that none of its expenses are extraordinary expenses since the expenses:

- *arise from the central government's ordinary activities in keeping with the agreements it has entered into and the decisions it has made.*
- *are, de facto, under its influence or control.*

For example, a loss arising from a decision to sell an asset rather than keep it is not deemed to be an extraordinary item since the government made the decision to sell the asset. A penalty to be paid to the European Union could not be deemed an extraordinary item since the penalty arises from the central government's failure to comply with the agreements it has made. Similarly, central government expenditures to remedy damages from a natural disaster should not be considered extraordinary since the government is responsible for providing assistance for disaster victims.

Consequently, the decision was made to eliminate the notion of extraordinary expenses for the central government.

II – POSITION WITH REGARD TO OTHER ACCOUNTING STANDARDS

In setting the general principles for recording and valuation of the central government's expenses, this Standard draws its inspiration from the following accounting standards:

- ***for expenses of the same type encountered by businesses*** (direct operating expenses and financial expenses) *the recognition and valuation rules are taken from the French Plan comptable, except for financial expenses related to transactions in derivative financial instruments and foreign currency transactions. The accounting treatment and valuation rules for these transactions are taken from the French Banking Regulation Committee Regulations 88-02 of 22 February 1988, as amended, on the accounting treatment of interest rate futures, 90-15 of 18 December 1990, as amended, on the accounting treatment of interest rate and currency swaps and 89-01 of 22 June 1989, as amended, on the accounting treatment of foreign currency transactions (see Standard 11 on financial debt and derivative financial instruments).*
- ***for more specific expenses arising from the central government's economic and social regulation role*** (indirect operating expenses and intervention expenses) *there are no known accounting standards that are applicable and the accounting principles prescribed under ordinary legislation cannot always be transposed;*
- ***for exceptional expenses***, *the preparatory work on the Standard drew its inspiration from IAS 8 on net profit or loss for the period, fundamental errors and changes in accounting policies and from IPSAS 3 on the net surplus or deficit for the period, fundamental errors and changes in accounting policies.*

On this basis, the Standard on expenses sets out a general accounting principle that complies with the accrual principle. This principle states that central government expenses must be recorded as soon as the obligations arise. The accrual criterion for expenses is defined as the impact of the obligations on central government net worth. The accrual criterion for expenses is the date of the event, regardless of the actual date on which the event becomes known or is recorded in the financial statements. However, the difficulties with the valuation of obligations as soon as they arise mean that it is not always possible to apply the accrual criterion as soon as the obligations arise. Instead they are recorded when a reliable estimate can be made of their amount, meaning when the transaction giving rise to the expense is executed. Therefore, the accrual criterion for expenses is the service rendered.

STANDARD 2 – EXPENSES

STANDARDS

1. SCOPE

1.1 SCOPE OF THE STANDARD

This Standard shall apply to central government expenses, which are defined as a decrease in assets or an increase in liabilities that does not cause the arrival of a new asset or a decrease in liabilities.

Central government expenses correspond either to the consumption of resources as part of the production of goods or services, or to an obligation to make an irrevocable payment to another entity that has no direct counterpart in the financial statements. These expenses include:

- operating expenses;
- intervention expenses;
- financial expenses.

1.2 EXPENSE CATEGORIES

1.2.1 Operating Expenses

Operating expenses are expenses arising from the central government's ordinary activities. They include direct operating expenses and indirect operating expenses.

1.2.1.1 Direct Operating Expenses

Direct operating expenses are:

- the sums paid for the merchandise and supplies purchased or consumed and work and services consumed directly by the central government in the course of its ordinary activities;
- staff costs, including the compensation of central government employees in cash and sometimes in kind for their labour and the expenses related to this compensation. These costs include:
 - compensation of employees, including primary pay, overtime pay, bonuses, rewards, compensation for expenses and various benefits in cash and in kind, holiday pay and family supplements;
 - social security expenses, retirement expenses and direct contributions, including the employer's contributions that the central government pays to social bodies and its contributions to the family allowance fund;
 - employer-provided benefits that the central government pays directly to its employees, who do not make contributions to the social security funds;
 - other social expenses, including the optional social benefits;

- other staff costs;
- payments with no direct exchange arising from a legal obligation other than payments related to staff costs (taxes and similar payments);
- the net carrying amount of asset disposals;
- settlement decisions that do not reject the validity of previously recorded claims that the central government collects on its own behalf.

1.2.1.2 Indirect Operating Expenses

Indirect operating expenses are subsidies for public service expenses.

Subsidies for public service expenses are the payments that the central government makes to operators to cover their operating expenses arising from the execution of public policies that are the direct responsibility of the central government, but entrusted to such operators and carried out by them under government supervision. The exchange for these payments is the performance of the tasks that the central government entrusts to these operators.

1.2.2 Intervention Expenses

1.2.2.1 Intervention Expenses

“Intervention expenses” are payments that the central government makes as part of its economic and social regulation role. Intervention expenses include:

- transfers, payments with no equivalent counterpart in the financial statements or exchange made directly by central government departments or indirectly through other entities, which are most often government policy operators, as part of their redistribution role to one or more beneficiaries in the strictly designated categories (households, enterprises, local and regional authorities, other entities).

However, such transfers do not include transactions conducted on behalf of other entities and payments arising from receipts that the central government receives as an agent for such entities and then turns over to them. These transactions shall be recorded in the central government financial statements, but they shall have no impact on the surplus/deficit for the period, other than any costs involved in collection.

- expenses arising from government guarantees

1.2.2.2 Transfer Beneficiaries

The transfer beneficiaries are the end beneficiaries of the public policy measures or systems in question, both in the case of transfers made directly by the government and in the case of indirect transfers made through redistribution bodies.

There are four categories of beneficiaries:

- households, which are individuals or groups of individuals considered as consumers;
- enterprises, which are production units for goods and services, regardless of their legal structure, as long as the sales of their goods and services cover more than 50% of their production costs. This includes farm and non-farm sole proprietorships, financial and non-financial corporations in the public and private sectors, national public establishments in industry and trade and all other entities that meet the sales revenue criterion mentioned above.
- Transfers to local and regional authorities, which are local and regional authorities per se, meaning *communes*, *départements*, regions and their affiliated or associated public establishments, along with public establishments with territorial responsibilities;

- other entities, which are entities incorporated under public law, private law or international law that do not belong to the other categories defined above.

1.2.3 Financial Expenses

Financial expenses arise from financial debts, derivative financial instruments, cash position and financial assets. They do not include bank service charges, penalties for late payments or interest and exchange rate losses on transactions other than those related to financing and cash position.

These expenses include:

- interest expenses on financial debts, cash and cash equivalents, derivative financial instruments and various debts related to financing and cash transactions.
- exchange rate losses related to financial debts and derivative financial instruments denominated in foreign currency;
- net expenses from disposals of cash equivalents, meaning the capital losses incurred in the disposal of the cash equivalents in question;
- other financial expenses related to financing and cash transactions, or to financial assets.

2. ACCOUNTING TREATMENT

2.1 GENERAL ACCOUNTING TREATMENT RULES

The accrual criterion for expenses shall be the service rendered, as long as such expenses can be reliably valued.

2.2 APPLICATION TO SPECIFIC EXPENSE CATEGORIES

2.2.1 Direct Operating Expenses

The accrual criterion for expenses shall be the delivery of the supplies or goods ordered.

For services, the criterion shall be the service rendered. However, the issuance costs of debt securities may be spread over the life of the securities as is appropriate for the redemption procedures.

The expenses associated with long-term contracts shall be recorded in relation to the progress on execution achieved on the reporting date. When it is likely that the total expenses related to the contract will be greater than the total revenues, the expected loss shall be recorded as an expense.

2.2.2 Indirect Operating Expenses

The accrual criterion for subsidies for public service expenses shall be the individual appropriation decision or order.

At the reporting date, an allocation to provisions for operating expenses shall be recorded for subsidies:

- where the appropriation is subject to the fulfilment of conditions;
- where the appropriation procedure has not yet taken place;
- and where at least some of the rights can be recognised in the same period.

The allocation to provisions shall be an estimate of the rights that can be recognised in the period.

2.2.3 Intervention Expenses

The accrual criterion for transfers shall be the individual appropriation decision or order.

At the reporting date, an allocation to provisions for intervention expenses shall be recorded for transfers:

- where the appropriation is subject to the fulfilment of conditions;
- where the appropriation procedure has not yet taken place;
- and where at least some of the rights can be recognised in the same period.

The allocation to provisions is an estimate of the rights that can be recognised in the period.

2.2.4 Financial Expenses

The accrual criterion for financial expenses for interest shall be the other party's acquisition of the interest prorata temporis.

Financial expenses for discounts shall be recorded by recognising the portion of the discount for the year as calculated by the actuarial method.

The accrual principle for financial expenses constituting losses shall be the recognition of the losses, except in the case of derivative financial instruments used for hedging, where the criterion shall be the recognition of the revenues from the hedged item starting from the maturity of the derivative contract

3. DISCLOSURES IN THE NOTES

The nature and the amounts of the payables, prepaid expenses and deferred expenses shall be explained in the notes, along with the accounting treatment of expenses to be spread over more than one year.

The notes shall explain the nature and the amounts of significant contributions in kind that the central government makes to other entities, which usually correspond to loans of staff, plant and equipment.

STANDARD 2 – EXPENSES

EXAMPLES

I – THE COMMON CLASSIFICATION BY NATURE

The table below shows the links between the accounting classification of expenses and the budget structure of expenditures. It shows the simple and not rigorous linkage between expense items in the French Plan comptable and the classes and categories of budget expenditures. There is no real one-to-one relationship between chart of accounts items and budget expenditure classes.

For example:

- staff costs are not the same as Class II “personnel expenditure”, since taxes and similar payments on compensation of employees are covered by Class II in the budget, but are covered by external services and other ordinary management expenses in the financial statements;
- purchases, outside services and other ordinary management expenses, along with subsidies for public service expenses are not equivalent to the operating expenditures under budget Class III, which covers only part of the taxes and similar payments (see previous point); Furthermore, the expenses calculated have no impact on the budget;
- class I “Appropriations from Public Authorities” does not figure in the common classification by nature. These expenditures are tracked by purpose in the budget and then broken down by the nature of the expenses.

EXAMPLES OF EXPENSE ITEMS	BUDGET EXPENDITURE CATEGORIES
PURCHASES	CLASS III – OPERATING EXPENDITURES
Purchases added to inventories: raw materials and supplies	Operating expenditures other than personnel expenditures
Purchases of equipment and tools added to inventories	Operating expenditures other than personnel expenditures
Changes in inventories	
Purchases of consultancy and services	Operating expenditures other than personnel expenditures
Purchases of current materials and supplies	Operating expenditures other than personnel expenditures
Purchases of equipment and tools	Operating expenditures other than personnel expenditures
Discounts, rebates and refunds obtained on purchases	
EXTERNAL SERVICES AND OTHER OPERATING EXPENSES	CLASS II – PERSONNEL EXPENDITURES CLASS III – OPERATING EXPENDITURES
External services	Operating expenditures other than personnel expenditures
Taxes and similar payments	
Taxes and similar payments on compensation payments	Miscellaneous contributions (Class II)
Other taxes and similar payments	Operating expenditures other than personnel expenditures
Penalties and fines	Operating expenditures other than personnel expenditures
Carrying amount of asset disposals	
SUBSIDIES FOR PUBLIC SERVICE EXPENSES	CLASS III – OPERATING EXPENDITURES
	Subsidies for public service expenses
STAFF COSTS	CLASS II – PERSONNEL EXPENDITURES
Compensation of employees	Compensation for activity
Social security and retirement expenses, direct contributions	Miscellaneous contributions
Benefits provided directly by the employer	Social benefits and miscellaneous benefits
Other social expenses	Social benefits and miscellaneous benefits
Other staff costs	Social benefits and miscellaneous benefits
INTERVENTION EXPENSES	CLASS VI - INTERVENTION EXPENDITURES
Transfers to households	Transfers to households
Transfers to enterprises	Transfers to enterprises
Transfers to local and regional authorities	Transfers to local and regional authorities
Transfers to other entities	Transfers to other entities
Expenses arising from government guarantees	Guaranties enforced

FINANCIAL EXPENSES	CLASS IV – CENTRAL GOVERNMENT DEBT EXPENSES
Interest expenses	Interest on negotiable financial debt
	Interest on non-negotiable financial debt
Losses on claims related to investments	
Expenses from derivative financial instruments	Miscellaneous financial expenses
Exchange rate losses	Miscellaneous financial expenses
Net expenses on disposal of cash equivalents	
Other financial expenses	Miscellaneous financial expenses
ALLOCATIONS TO PROVISIONS, DEPRECIATION AND IMPAIRMENT LOSSES	

II – ACCRUAL CRITERIA FOR EXPENSES ACCORDING TO THEIR NATURE

The table below shows the services rendered as the accrual criteria for each type of expense.

EXPENSE CATEGORIES	EVENTS GIVING RISE TO OBLIGATIONS	ACCRUAL CRITERION FOR EXPENSES
<i>DIRECT OPERATING EXPENSES</i>		
<i>Purchases, external services and other ordinary management expenses</i>		
<i>Contracts awards without bidding procedures: - Purchases based on invoices or on supply, service or work memos-Services covered by the terms of Article 30 of the Government Procurement Code (legal counsel, etc.)</i>	<i>Signature of contract or order form</i>	<i>Delivery of supplies, reception of services or work</i>
<i>Contracts for current supplies, services or work</i>	<i>Notification of the contract</i>	<i>Delivery of supplies, reception of services or work</i>
<i>Subscription contracts</i>	<i>Signature of contract (order form)</i>	<i>Signature of contract (order form)</i>
<i>Leases</i>	<i>Signature of lease</i>	<i>Signature of lease or receipt of rent demand or application of the lease terms</i>
<i>Compensation granted after the filing of a claim (expenditures without court orders)</i>	<i>Occurrence of the event making a claim for compensation possible</i>	<i>Decision to grant compensation without court order</i>
<i>Sums to be paid following a court ruling</i>	<i>Occurrence of the event that makes the central government liable</i>	<i>Court ruling that sets the amount to be paid</i>
<i>Miscellaneous reimbursements (travel costs, entertainment costs, election costs, etc.)</i>	<i>Signature of the brief, contract, order form, or occurrence of the event making a claim for reimbursement possible</i>	<i>Decision to reimburse</i>
<i>Taxes</i>	<i>Occurrence of the event that gives rise to the obligation to pay</i>	<i>Activity subject to taxation or ownership of a building on the tax date or occupancy of a building on 1 January</i>
<i>STAFF COSTS</i>		
<i>Compensation of employees and benefits</i>	<i>Assignment, promotion or hiring</i>	<i>Services rendered</i>
<i>Pension expenses: Civilian and military retirement pensions and disability pensions</i>	<i>Occurrence of the event giving rise to the entitlement to the retirement pension or a disability pension</i>	<i>Recognition of pension entitlement (existence of a pension entitlement)</i>
<i>Temporary disability benefits</i>	<i>Occurrence of the event giving rise to the entitlement to the temporary disability benefit</i>	<i>Recognition of benefit entitlement (existence of benefit entitlement)</i>
<i>Military disability pensions and war victims' pensions</i>	<i>Occurrence of the event giving rise to the entitlement to the disability pension</i>	<i>Recognition of disability pension entitlement (existence of a pension entitlement)</i>
<i>Veteran's pension</i>	<i>Occurrence of the event giving rise to the entitlement to the veteran's pension</i>	<i>Recognition of veteran's pension entitlement</i>
<i>INDIRECT OPERATING EXPENSES</i>		

<i>Subsidies for public service expenses</i>	<i>Occurrence of the event giving rise to the entitlement to the subsidy for public service expenses</i>	<i>Appropriation procedure (appropriation order or individual appropriation decision)</i>
INTERVENTION EXPENSES		
<i>Transfers</i>	<i>Occurrence of the event giving rise to the entitlement to the transfer</i>	<i>Appropriation procedure (appropriation order or individual appropriation decision)</i>
<i>Expenses arising from government guarantees</i>	<i>Occurrence of the event giving rise to the entitlement to payment resulting from enforcement of a government guarantee</i>	<i>Decision to make the guarantee payment</i>

III – SUMMARY TABLE

The table below summarises and illustrates the standards with regard to the transfers paid to local authorities and the transfers to the European Union (classified as transfers to other entities), as they were developed in the budget acts for 2004

	Intervention expenses or transfers to...	Transactions on behalf of other entities
Local authorities	<p><u>Operating grants</u> <i>Block operating grant (DGF)⁷</i> <i>Special grant for schoolteacher housing (DSI)</i> <i>National business tax equalisation fund (FNPTP)⁸</i> <i>Local elected official grant</i> <i>Remittance of oil tax to Corsica</i> <i>Miscellaneous operating subsidies</i></p> <p><u>Capital grants</u> <i>Value added tax compensation fund (FCTVA)</i> <i>Block infrastructure grant (DGE)</i> <i>Miscellaneous capital and investment subsidies</i></p> <p><u>Grants for transfers of powers</u> <i>General decentralisation grant (operating grant)</i> <i>Regional educational infrastructure grant (capital grant)</i> <i>School infrastructure grant to département (capital grant)</i></p> <p><u>Compensation for local tax relief (operating grant)</u> <i>Business tax compensation grant</i> <i>Compensation for exemptions from local taxes</i> <i>Compensation for eliminating payrolls from the business tax base⁹</i></p> <p><i>Settlement decisions cancelling claims arising from local direct taxes (legislative measures reducing local direct taxes)</i> <i>Counterpart to the property tax exemption on developed and undeveloped property</i></p>	<i>Share of traffic fines</i>
... other entities (European Union)	<p><i>Financial contribution from the VAT</i> <i>Financial contribution based on GNP</i> <i>Miscellaneous contributions of the Guarantee Fund for external actions</i> <i>Share in the European Development Fund</i></p>	<i>Conventional own resources (customs resources and production contribution for sugar)</i>

⁷ According to the structural reform of the central government's grants to local or regional authorities, this block operating grants includes the compensation for eliminating payrolls from the business tax base, the compensation grant led by regional tax reform, 95% of the general decentralisation grant (except specific grants), the equalisation grant of the national equalisation fund and the compensations for the decreasing of the business tax compensation grant which was previously paid by the national business tax equalisation fund.

⁸ Just for the compensation for the loss of business tax bases and mines' user fees.

⁹ Just for the business tax equalisation fund to départements.

IV – APPLICATION OF GENERAL PRINCIPLES AND CLASSIFICATIONS OF TRANSFERS AND SUBSIDIES FOR PUBLIC SERVICE EXPENSES

This section illustrates the general principles with regard to the accounting treatment of transfers and subsidies for public service expenses that the central government pays and provides a classification of these transactions by type.

It is not intended to explain the accounting treatment for all transfers and subsidies for public service expenses. Instead, it aims to provide a representative sample of these transactions and show how the general accounting principles apply to them.

Observation of trends has shown that payments fall into two broad categories:

- those made as the result of an examination procedure;*
- those made as the result of an “appropriation” procedure.*

IV.1 - Payments Made as the Result of an Examination Procedure: Direct Transfers

The payments made as the result of an examination procedure are made to public and private sector beneficiaries to finance specific projects. These payments are made after the examination of an application by the relevant administrative authority. The application requirements are set out in the legislation instituting such payments. The government makes these payments directly to the end beneficiaries. Such transfers are the direct transfers to households, businesses and other entities.

These direct transfers fall into two categories:

- **entitlements**, where the allocation system requires applicants to meet predefined eligibility requirements (student bursaries and all benefits linked to social and economic measures). If the criteria are met, the appropriation procedure is initiated by the administrative authority with the power to engage the central government’s liability;*
- **approved payments**, where the allocation procedure requires the approval of a special commission. These decisions may be:

 - based on requirements (agreement or contract). In this case, they are similar to entitlements and the required documents (listed in the agreement or contract) are submitted to the examining body. The appropriation order is then issued by the administrative authority with the power to engage the central government’s liability (as is the case for individual grants to enterprises from Regional Directorates of Industry, Research and the Environment);*
 - or they may be purely discretionary (no agreement or contract). The appropriation procedure is initiated by decision of the administrative authority with the power to engage the central government’s liability.**

IV.2 – Payments Made as the Result of an “Appropriation” Procedure: Direct and Indirect Transfers and Subsidies for Public Service Expenses

These payments are made to specific entities under legislative and regulatory provisions. The amount of the payments is determined in the budget discussions and stipulated in the budget.

The central government is obliged to pay the funds. The appropriation procedure is initiated by the relevant administrative authority.

In practice, the payments are:

- appropriations made under the terms of supra-national regulations, i.e. transfers to other entities, meaning the central government’s contributions to the European Union and international bodies.*
- appropriations for programmes and actions governed by national or international regulations, i.e.*

- *indirect transfers to households, businesses and other entities, paid through intermediary entities, which are government policy operators in most cases. These payments finance government intervention measures;*
- *transfers to local and regional authorities;*
- *and subsidies for public service expenses paid to government policy operators to cover their operating expenses incurred for the direct policy tasks assigned to them.*



The accrual criterion for all of these direct and indirect payments is the issuing of the appropriation order. This corresponds to the report of the services rendered and, in most cases, it is also the procedure that gives rise to the claim for payment.

The steps leading up to the appropriation procedure, such as the determination of the amounts due or the approval of the examining body, do not give rise to other entities' claims and cannot result in the recording of the corresponding expense.

However, an allocation is made to provisions for operating expenses or to provisions for intervention expenses if the appropriation procedure for transfers and subsidies paid on the basis of entitlement criteria has not taken place by the end of the accounting period. The allocations to provisions are estimates of the claims that can be recognised in the financial year.

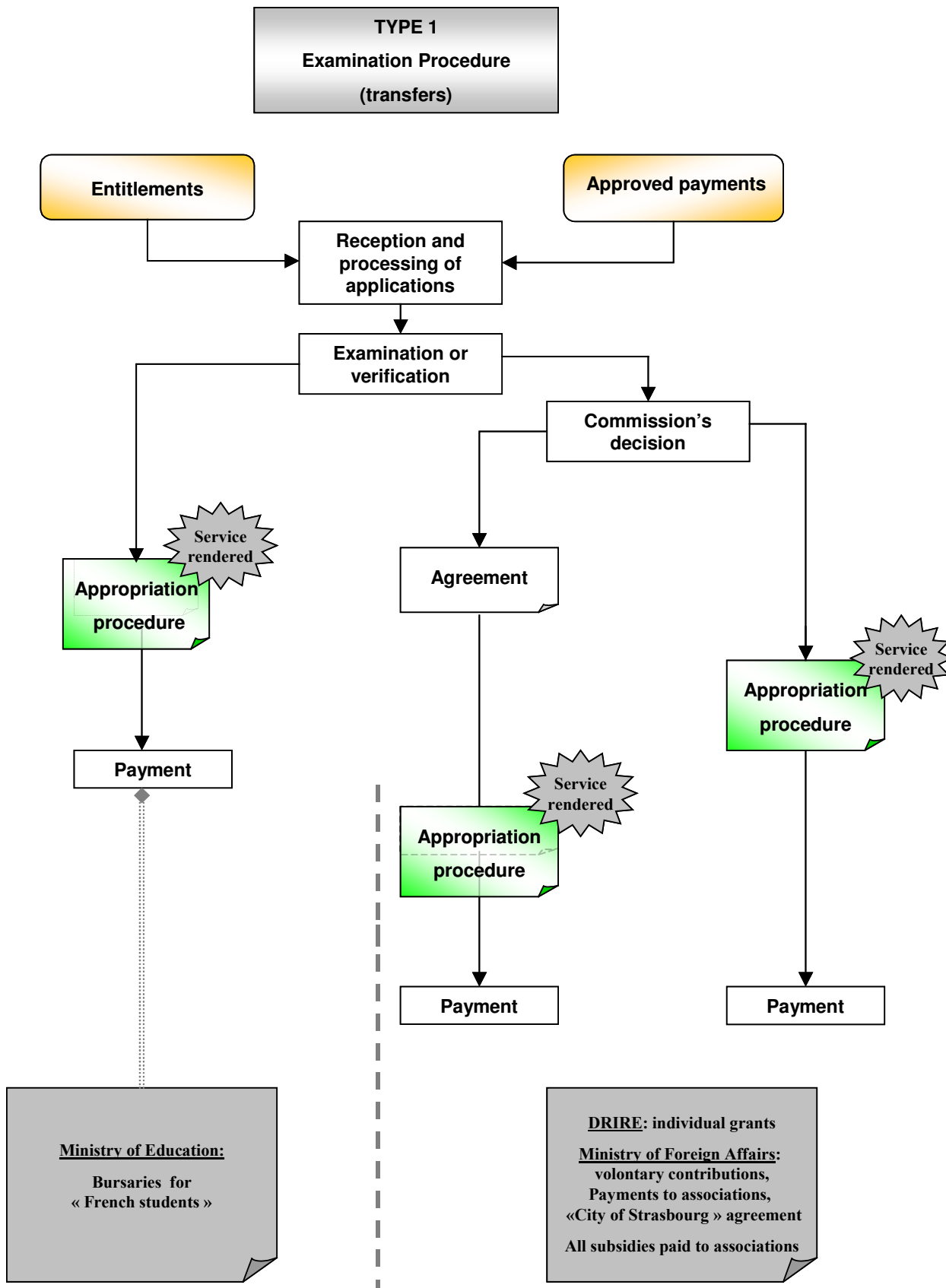
The recording of an allocation to provisions for operating expenses or an allocation to provisions for intervention expenses must meet the criteria set out in Standard 12 on provisions for risks and liabilities, to wit:

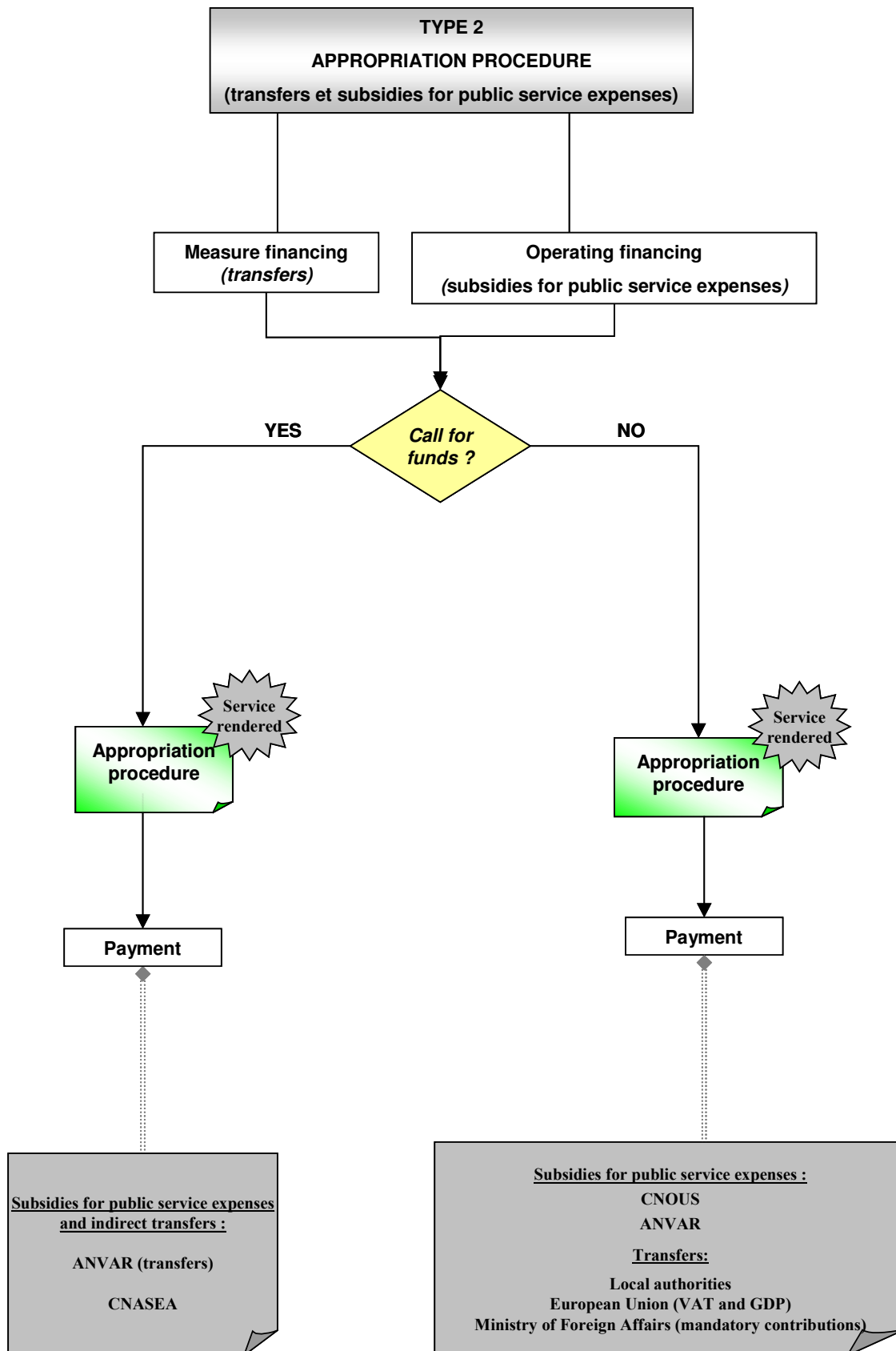
- *there is an obligation set out in legislation on the reporting date;*
- *the fulfilment of the criteria is likely to lead to the outflow of resources;*
- *the estimate of the amount is reasonably reliable (scale or agreement).*



The diagrams on the following page illustrate the operating procedures involved for the two types of payments discussed above and show how the accrual principle is applied for each type of payment:

- *payments made as the result of an examination procedure: Type 1;*
- *payments made as the result of an “appropriation” procedure: Type 2.*





STANDARD 3

SOVEREIGN REVENUES

STANDARD 3 - SOVEREIGN REVENUES

INTRODUCTION

The purpose of the Standard on sovereign revenues is to define the general principles governing the accounting treatment of sovereign revenues and the presentation of these revenues in the financial statements.

The aim of this Standard is to establish accounting treatment rules for sovereign revenues that comply with accrual accounting principles. The central government financial statements must record all of the rights and obligations of the central government with regard to these revenues.

The financial statements must make it possible to improve knowledge about the central government's tax situation and provide the necessary information for an analysis of tax yield, meaning knowledge about the cash flows arising from the rights and obligations in a given financial year.

This Standard places special emphasis on tax revenues, which constitute the main source of financing for central government expenses and account for the bulk of sovereign revenues.

I – REVENUES THAT ARE SPECIFIC TO GOVERNMENTS

Sovereign revenues (taxes, fines and other penalties) stem from the central government's exercise of its sovereign powers. They correspond to transactions with no direct equivalent exchange for other parties.

They are distinct from other revenues accruing to the central government either from transactions involving a direct exchange of equivalent value for the other parties (sales of goods and services, disposal of assets or use of tangible, intangible and financial assets by other parties), or from transactions with no direct equivalent exchange for the other parties if these transactions do not involve the exercise of the central government's sovereign powers.

Sovereign revenues are revenues that are specific to governments, since there is no equivalent in business accounting. This Standard applies solely to sovereign revenues. The claims that the central government collects on behalf of other entities (local authorities, social security bodies, etc.) do not fall within the scope of this Standard. They are covered by the provisions of Standard 9 on claims related to current assets.

The fact that some taxes are recorded in corporate financial statements could lead us to assume that the rules applying to businesses could simply be applied to government "in reverse" in order to determine the accounting treatment for tax revenues. Two examples are enough to show that this is not possible:

- *the corporate income taxes that businesses recognise as an expense in year N cannot correspond to the amount of sovereign revenues in the same year. The central government does not know exactly how much corporate income tax it will collect for year N when it draws up its own financial statements for the year N, because of the time businesses have to file their tax returns.*
- *the value added tax is part of central government revenues, but businesses do not record it as an expense since they collect it on behalf of the government and it has no impact on their expenses.*

II – ACCOUNTING PRINCIPLES

This Standard defines the notions of gross and net sovereign revenues, as well as the principles for determining the accrual criteria.

II.1 – The Notions of Gross and Net Sovereign Revenues

Net sovereign revenues are gross sovereign revenues adjusted for settlement decisions that reject the validity of previously recorded tax claims (rebates and other claims cancelled following errors) and central government tax liabilities.

The definition of central government tax liabilities raises problems because of the complexity of the tax assessment process. There are many exceptions to tax standards and tax relief measures are applied at different stages in the tax assessment process. The “tax expenditures”, which correspond to taxes that the central government waives for economic and social purposes involve a range of measures. In the case of personal income tax, for example, these include supplementary deductions for dependants and tax credits.

No single definition of central government liabilities could cover all of these “tax expenditures”. The definition used in this Standard covers only some of them. Consequently, it would be better to show central government liabilities as a decrease in gross tax revenues rather than as an increase in expenses to avoid a situation where only a portion of “tax expenditures” are counted as expenses. The “scope” of this expense category would be artificial, whereas recognising a decrease in revenues is in line with the treatment of tax measures that intervene before the gross tax amount is determined.

Consequently, the financial statements show separate items for:

- *gross tax revenues, which usually correspond to the application of a tax rate schedule to the tax base;*
- *and central government tax liabilities, which are the result of tax measures that taxpayers can use to decrease their gross taxes. In the case of personal income tax, such measures include tax reductions and tax credits.*

Consequently, the gross revenue from personal income tax factors in such measures as deductions for dependent children, since this parameter is used to determine the tax rate. On the other hand, measures such as tax reductions for charitable donations or tax credits for home maintenance expenditures are treated as central government tax liabilities.

The definition of gross revenues and central government tax liabilities applies, generally speaking, to all taxes. However, this definition does not meet the criterion used for distinguishing between gross revenues and central government tax liabilities with regard to the value added tax (VAT).

The central government’s VAT liabilities are defined as VAT credits (when the amount of VAT collected by taxpayers is less than their VAT deduction), which taxpayers can apply towards taxes owed or use to obtain a tax refund. Inversely, gross VAT revenues correspond to the cases where the amount of VAT collected by taxpayers is greater than their VAT deduction.

II.2 – Determining when Sovereign Revenues are Recognised

II.2.1 – General Issues

Sovereign revenues are recorded in the year in which they accrue to the central government, as long as the revenues for the year can be reliably measured.

The accrual criterion for sovereign revenues is the occurrence of the taxable event or the violation of legislation in force.

However, in some cases, the reliable revenue valuation requirement means that revenues may be recognised some time after they accrue. For example, the recognition criterion may be the filing of a return reporting the taxable item or the issue of a tax notice.

II.2.2 – Taxes and Other Levies

With regard to tax revenues, the Standard highlights:

- *the accrual criterion for recording tax revenues, which is when the taxable event occurs;*

- *and the reliable revenue valuation requirement, which means that the recognition of revenues is delayed in some cases.*

Consequently, tax revenues may be recorded in the financial statements:

- *for the year when the taxable event occurs (this is the case for the oil tax and the value added tax);*
- *or for the year when the taxable event is reported in a tax return (as is the case for personal and corporate income tax).*

Reporting oil tax revenues in the financial statements for the same year in which the petroleum products are consumed does not raise any special problems. Oil tax returns are usually filed every ten days, which means that the full amount of the central government's oil tax claims is known in time to draw up the financial statements for the year.

Recording value added tax revenues raises two main problems. The first involves determining the accrual criterion, since the VAT rules make a distinction between the taxable transaction date and the due date. For VAT on goods, the delivery of the goods marks both the taxable transaction date and the due date. On the other hand, the taxable transaction for VAT on services is the performance of the services or work, but the VAT is due when payment is received.

The recognition date that would be most in line with the principle of recording the central government's rights when they arise is that of the event that gives rise to the VAT claim. However, the due date, which is the only date appearing on tax returns is still a satisfactory proxy for the event that gives rise to the VAT claim. Therefore, it can be used as the accrual criterion for VAT revenues. This is more closely in line with the "business period" used in business accounting.

The second problem with recording VAT revenues in the financial statements relates to the valuation of returns for the year N received after the financial statements for the year N have been drawn up. Even though the usual procedure for reporting VAT transactions involves monthly returns, meaning that virtually all of the central government's claims for the year are known in time to draw up the financial statements, this accrual criterion does not necessarily apply to all cases.

For example, tax claims relating to returns received after the statements have been drawn up are not recorded in the financial statements for the year in which the tax is due unless they can be reliably valued. Otherwise, they are recorded in the financial statements for the year in which they are received. These returns mainly involve simplified VAT arrangements and accounted for approximately 3% of the VAT revenues in the years from 1999 to 2001.

The criterion for recording personal income tax revenues in a given year is the filing of the returns, meaning that they are recorded in the year following that in which the taxable income was received. The income tax assessment lag makes it impossible to record the tax revenues in the financial statements for the year in which the taxable income was received. To do so would require a reliable valuation of tax assessments to be issued in the following year by the time the financial statements for the current year are drawn up.

The criterion for recording corporate income tax revenues in a given year is also the filing of the returns and not the end of corporate financial years. The problem with corporate income tax lies in the fact that the central government cannot know how much revenue the tax will produce until corporations file their annual returns four months after the end of their financial year. This means that, in most cases, the central government does not receive corporate income tax returns for the year N until after it has drawn up its own financial statements for the year N.

Using earnings as the recognition criterion of revenues would imply that a reliable valuation of the difference between instalment payments received and tax due could be established on the basis of inventories. Such estimates are unreliable, so central government revenues are not recognised until the final tax assessment is made. Furthermore, the taxpayers' exercise of their option to increase or decrease

instalment payments for the current year's tax does not provide enough information to determine the final tax amount, even though changes in or suspension of instalment payments indicate a change in the tax base.

Finally, when a tax audit reveals tax evasion, the central government's claim arises when the evasion takes place, but the related revenues are recorded in the financial statements for the year in which the collection notice is issued for back taxes, since no reliable valuation of the tax claim can be made before the notice is issued.

There is no attempt to recognise the tax revenues from tax audits to be conducted in future years, just as there are no plans to make a theoretical valuation of tax revenues that factors in tax fraud.

II.2.3 - Fines and Other Penalties

The diverse procedures for collecting fines and penalties make it necessary to look at the general principle for the recognition of revenues on a case by case basis to see when the related central government revenues arise and when they can be reliably measured.

Fines and penalties fall into two broad categories:

- *fines that are paid without notice, for which it may not be possible to recognise revenues at a date different from the receipt of the funds;*
- *fines that are collected following the issue of a collection notice, where the related revenues could be recognised at an earlier step in the process than the receipt of the collection notice by the accountant responsible for collecting the fine (for example, the date of the decision to impose the fine or the date of the notification of the decision).*

II – POSITION WITH REGARD TO OTHER ACCOUNTING STANDARDS

The accounting principles for sovereign revenues set out in this Standard draw their inspiration from the French Plan comptable and the IFAC¹⁰ Public Sector Committee Standards and the principles used in the system of national accounts.

III.1 – The Standards Being Developed by the IFAC Public Sector Committee

As yet, there is no IPSAS on the accounting treatment of taxes. The earliest work of the IFAC Public Sector Committee dealing with revenues from “non-exchange transactions” resulted in the definition of general principles that are unlikely to undergo any significant changes.

Revenues from non-exchange transactions are defined as revenues from other parties that do not directly receive a resource of more or less equivalent value in exchange. This notion underlies the criteria for distinguishing between sovereign revenues and other central government revenues.

The general principles laid down by the Committee call for assets and tax revenues to be recognised:

- *when the taxable transaction occurs, meaning the event that give rise to the resource controlled by the entity;*
- *when it is likely that the expected future economic benefits or service potential will go to the entity;*
- *and when a reliable valuation of such benefits or service potential can be made.*

III.2 – System of National Accounts

¹⁰ International Federation of Accountants

The system of national accounts requires taxes to be recorded on an accruals basis, meaning when the activities, transactions or other events that give rise to tax liabilities occur (and not when the taxes are collected), and for the entries to be the amounts due (not the amounts collected or disbursed).

However, the system of national accounts does not record the amounts due unless they are documented in a tax assessment, a tax return or some other proof that establishes the taxpayer's indisputable obligation to pay the tax.

STANDARD 3 - SOVEREIGN REVENUES

STANDARDS

1. SCOPE

1.1 SPECIFIC DEFINITIONS

In this Standard, the following terms shall have the meanings given below:

Sovereign revenue

Sovereign revenues arise from the exercise of the central government's sovereign powers. These are revenues from other parties that do not directly receive a resource of equivalent value in exchange.

Tax

Tax is a sum of money that the government requires individuals and corporations to pay irrevocably and with no direct equivalent exchange in order to cover public expenses. Tax collection is authorised in the budget.

Fines and other penalties

Fines and other penalties are financial sanctions imposed on other parties for violations of legal or regulatory requirements.

1.2 SCOPE OF THE STANDARD

This Standard shall apply to sovereign revenues, meaning:

- tax revenues from central government taxes and similar levies;
- fines and other penalties paid to the central government.

This Standard shall not apply to:

- other central government revenues either from transactions involving a direct exchange of equivalent value for the other parties (sales of goods and services, disposal of assets or use of tangible, intangible and financial assets by other parties), or from transactions with no direct equivalent exchange for the other parties, if these transactions do not involve the exercise of the central government's sovereign powers;
- taxes, fines and other claims collected by the central government on behalf of other entities.

2. ACCOUNTING TREATMENT

2.1 GENERAL ACCOUNTING TREATMENT RULES

2.1.1 – The Transition from Gross to Net Sovereign Revenues

Net sovereign revenues are gross sovereign revenues adjusted for settlement decisions that reject the validity of previously recorded tax claims and central government tax liabilities.

Settlement decisions that cancel claims shall be treated differently depending on the validity of the claim initially recorded:

- settlement decisions that reject the validity of the claim initially recorded shall be treated as a decrease in gross revenues;
- settlement decisions that do not reject the validity of the claim initially recorded shall be treated as expenses.

The transition from gross sovereign revenues to the revenues recorded in the net sovereign revenues statement shall be explained in detail in the notes to the financial statements.

2.1.2 – Determining when Sovereign Revenues are Recognised

Sovereign revenues shall be recorded in the year in which they accrue to central government, as long as the revenues for the year can be reliably measured.

2.2 SPECIAL FEATURES OF THE ACCOUNTING TREATMENT OF TAXES

2.2.1 – The Transition from Gross to Net Tax Revenues

2.2.1.1 Gross Tax Revenues

As a general rule, gross tax revenues correspond to gross taxes, which are defined as the sum found by applying a tax rate schedule to the tax base.

2.2.1.2 Central Government Tax Liabilities

As a general rule, central government tax liabilities correspond to the tax measures that taxpayers can use to decrease their gross taxes.

Central government tax liabilities shall be recorded as a decrease in gross tax revenues.

2.2.1.3 Net Tax Revenues

Net tax revenues are gross tax revenues adjusted for central government tax liabilities and settlement decisions that reject the validity of previously recorded tax claims.

2.2.2 Determining when Tax Revenues are Recognised

2.2.2.1 Principles

Tax revenues shall be recognised in the financial statements if the following conditions are met:

- Parliament has passed the budget authorising tax collection;
- taxable events have been carried out;
- the revenues for the period can be reliably measured.

Tax revenues shall be recorded in the year in which the taxable events occur, as long as the revenues for the year can be reliably measured.

2.2.2.2 Accounting for the Lag in Reporting Taxable Transactions

The reporting lag results in a lag between the time when the central government's claims arise and the time when the amounts involved can be determined.

In view of this reporting lag, tax revenues shall be recorded:

- either when the taxable event occurs (this is the case for the oil tax and the value added tax);

- or when the taxable event is reported in a tax return (as is the case for personal and corporate income tax).

2.2.2.3 Accounting Treatment of Tax Audits

Revenues from tax audits shall be recorded in the financial statements for the year in which the collection notice is issued for back taxes.

3. DISCLOSURES IN THE NOTES

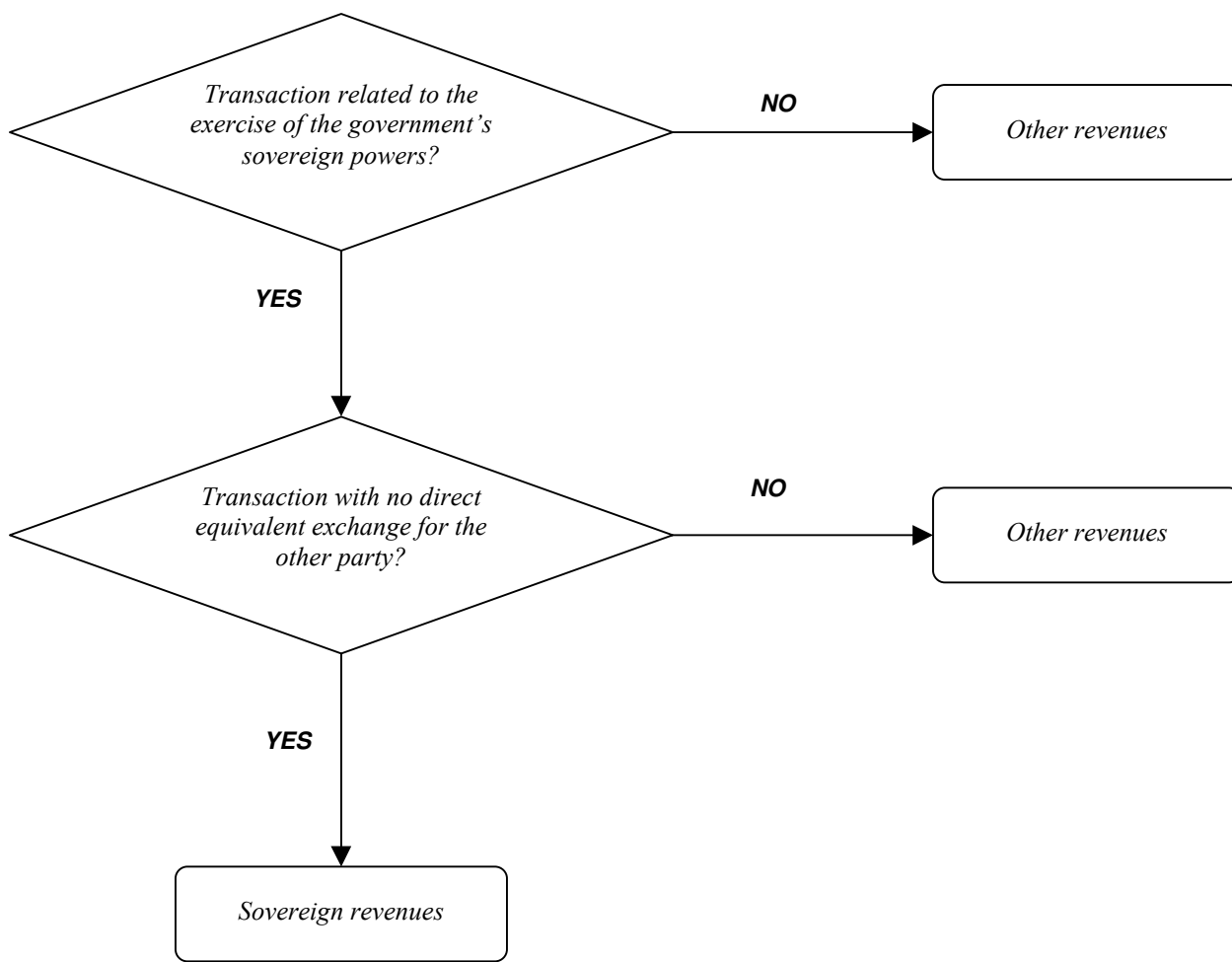
The notes shall contain a table showing the transition from gross to net sovereign revenues. It shall show the central government's tax liabilities and settlement decisions that reject the validity of previously recorded claims.

STANDARD 3 - SOVEREIGN REVENUES***EXAMPLES******I – THE DISTINCTION BETWEEN SOVEREIGN REVENUES AND OTHER CENTRAL GOVERNMENT REVENUES***

This flow chart shows the criteria used to distinguish sovereign revenues from other central government revenues.

Revenue is deemed to be sovereign revenue if the two following conditions are met:

- 1- The transaction is related to the exercise of the central government's sovereign powers.*
- 2- The transaction involves no direct equivalent exchange for the other party.*



II – APPLYING THE STANDARD TO DIFFERENT SETTLEMENT DECISIONS CANCELLING CLAIMS

Settlement decisions that reject the validity of the claim initially recorded consist of rebates and cancellation of claims following errors or disputes about the substance of claims.

Settlement decisions that do not reject the validity of the claim initially recorded consist of individual tax relief measures, amnesties and write-offs of claims.

III – APPLYING THE STANDARD TO THE MAIN TAXES

III.1 – Oil Tax

Revenues from the oil tax correspond to claims on the businesses subject to the tax and the central government's liabilities are fuel tax refunds.

Gross oil tax revenues are recorded in the year that petroleum products are made available for consumption. Liabilities are recorded in the year in which the beneficiaries eligible for tax refunds report consumption of the fuels.

III.2 – Value Added Tax (VAT)

Gross VAT revenues correspond to the central government's VAT claims, meaning the cases where the amount of VAT collected by taxpayers is greater than their VAT deduction.

Central government VAT liabilities correspond to VAT credits, meaning the cases where the amount of VAT collected by taxpayers is less than their VAT deduction.

Gross VAT revenues and credits are recorded in the year in which the VAT becomes due.

III.3 – Personal Income Tax

Gross revenues from personal income tax correspond to claims on persons with taxable income and the central government's liabilities are the tax deductions that may be applied to these claims.

Gross revenues from personal income tax are recognised as the gross tax amount calculated by applying the tax rate schedule to taxable transactions. The liabilities recorded in the financial statements are the taxpayers' tax reductions, prepaid taxes and tax credits.

Gross revenues and the central government's liabilities arising from personal income tax are recognised in the financial statements for the year in which the taxpayers file returns reporting taxable income.

Instalment payments received for personal income tax are carried on the statement of financial position until the final assessment of the tax owed is made.

III.4 – Corporate Income Tax

Gross revenues from corporate income tax correspond to claims on businesses with taxable income and the central government's liabilities are the tax deductions that may be applied to these claims.

Gross revenues from corporate income tax are recognised as the gross tax amount calculated by applying the tax rate schedule to taxable transactions. The liabilities recorded in the financial statements are tax credits, losses carried forward and other tax deductions that businesses can apply.

Gross revenues and the central government's liabilities arising from corporate income tax are recognised in the financial statements for the year in which returns reporting taxable income and deductions are filed.

Instalment payments received for corporate income tax are carried on the statement of financial position until the final assessment of the tax owed is made.

Receipts from flat-rate annual taxes are recorded in the same way as instalment payments for corporate income tax, since they may be deducted from the corporate income tax owed. Revenues from annual flat-rate taxes are not recognised until the deadline for claiming the deductions has passed.

STANDARD 4

**OPERATING REVENUES,
INTERVENTION REVENUES AND
FINANCIAL REVENUES**

STANDARD 4 - OPERATING REVENUES, INTERVENTION REVENUES AND FINANCIAL REVENUES

INTRODUCTION

This Standard defines the central government's operating, intervention and financial revenues and sets the rules for the accounting treatment and valuation of these revenues in keeping with accrual accounting principles.

I – APPROACH USED IN DEVELOPING THIS STANDARD

This Standard establishes the accounting classification of revenues and the accrual criterion in compliance with the general principles of business accounting.

I.1 – Accounting Classification of Revenues

I.1.1 – Accounting Categories

The revenues covered by this Standard are not specific to the central government. The revenues concerned are derived from the sale of goods and services, from investments in financial assets or from fees paid for the use of assets by other parties, from subsidies received, etc.

Revenues are classified into different categories according to the following principles:

- *The Standard makes no reference to the notions of exceptional or extraordinary revenues. As is the case for expenses (see the introduction to Standard 2), the “extraordinary-ordinary” approach has prevailed over the “exceptional-current” approach. However, in application of the IFAC criteria to the central government, none of the revenues covered by this Standard constitutes extraordinary revenue;*
- *The Standard identifies intervention revenues. The revenues involved are not specific to the central government in that they correspond to similar business revenues. They are mainly contributions and subsidies received from other entities (European Union, local and regional authorities, private sector partners);*
- *Financial revenues under the terms of this Standard correspond to the same items as financial expenses, meaning financial assets, cash position, financial debts and derivative financial instruments. Consequently, gains on foreign exchange rates realised on transactions other than central government financing transactions and cash transactions are classified according to the nature of the transaction involved, meaning that they are classified as operating revenues.*

The revenues covered by this Standard are classified under three accounting categories:

- *operating revenues, which are all revenues derived from the central government's ordinary activities;*
- *intervention revenues, which are revenues received with no equivalent exchange for the other party;*
- *financial revenues, which are revenues derived from financial assets, the cash position, financial debts and derivative financial instruments.*

I.1.2 – The Classification of Cost-Sharing Contributions and Earmarked Revenues in the Accounting Categories

Article 17 of the Constitutional bylaw authorises special budget procedures whereby receipts are allocated to cover specific expenditures. These are cost-sharing contributions and earmarked revenues.

These budget procedures are not contrary to the accounting principle of classifying revenues by type:

- *the revenues concerned by the cost-sharing contributions procedures are revenues received from other entities to cover the public interest expenditures, along with bequests and donations made to the central government. The revenues derived from donations and bequests are intervention revenues, but revenues from other entities to cover public interest expenditures correspond to operating revenues (for example, revenues from the disposal of assets belonging to the central government) or to intervention revenues (for example, revenues from co-financed programmes).*
- *The earmarking procedure for revenues is only applied to compensation for services rendered. The revenues involved are operating revenues.*

I.2 – Determining the Accrual Criteria for Revenues

This Standard applies the general principle stating that revenues shall be recognised when they accrue to the central government, as long as the revenue amount or the surplus/deficit from a transaction covered by a long-term contract can be measured reliably.

The Standard applies this accrual principle to the different revenue categories and makes a distinction between accrual criteria according to the nature of the central government activity involved: operating activity, intervention activity and financial activity.

II – POSITION WITH REGARD TO OTHER ACCOUNTING STANDARDS

This Standard draws its inspiration from the general principles of the French Plan comptable to set the accounting treatment and valuation rules for operating revenues, intervention revenues and financial revenues.

The Standard draws its inspiration for defining its scope of application from IAS 18 on “revenues arising from ordinary activities” and IPSAS 9 on revenues from “exchange transactions”, as well as the work of the IFAC¹¹ Public Sector Committee on revenues arising from “non-exchange transactions”.

The Standard adopts both approaches and defines the revenues falling within its scope of application as:

- *revenues from transactions involving a direct exchange of equivalent value for the other parties (sales of goods and services, disposal of assets or use of tangible, intangible and financial assets by other parties etc.);*
- *or revenues from transactions involving no direct equivalent exchange for the other parties, as long as these transactions are not related to the central government’s exercise of its sovereign powers (donations, bequests, subsidies etc.);*

These revenues are different from sovereign revenues, which arise from the exercise of the central government’s sovereign powers and are received from other parties that do not directly receive a resource of equivalent value in exchange (taxes, fines and other penalties).

¹¹ International Federation of Accountants

STANDARD 4 - OPERATING REVENUES, INTERVENTION REVENUES AND FINANCIAL REVENUES

STANDARDS

1. SCOPE

1.1 SCOPE OF THE STANDARD

This Standard shall apply to the central government's operating revenues, intervention revenues and financial revenues arising from:

- either transactions involving a direct exchange of equivalent value for the other parties (sales of goods and services, disposal of assets or use of tangible , intangible and financial assets by other parties etc.);
- or transactions involving no direct equivalent exchange for the other parties, as long as these transactions are not related to the central government's exercise of its sovereign powers.

On the other hand, this Standard shall not apply to sovereign revenues, meaning the revenues arising from the exercise of the central government's sovereign powers. Sovereign revenues are received from other parties that do not directly receive a resource of equivalent value in exchange.

1.2 REVENUE CATEGORIES

1.2.1 Operating Revenues

Operating revenues are all revenues arising from the central government's ordinary activities. They include:

- revenues from sales of goods and services;
- revenues from asset disposals;
- other revenues from ordinary management;
- inventories of finished goods and work in progress.

1.2.2 Intervention Revenues

Intervention revenues are revenues received with no equivalent exchange for the other party. They are mainly comprised of contributions from other entities.

1.2.3 Financial Revenues

Financial revenues are revenues arising from financial assets, the cash position, financial debts, derivative financial instruments and guarantees provided by the central government. Financial revenues do not include foreign exchange gains on transactions, other than those related to central government financing and its cash position.

Financial revenues include:

- revenues from central government investments, advances and loans;
- revenues from short-term receivables;
- revenues from cash equivalents resulting from capital gains upon disposal;

- foreign exchange rate gains arising from financial debts, derivative financial instruments and components of the cash position;
- other financial revenues arising from financial debts, derivative financial instruments, components of the cash position and guarantees provided by the central government.

2. ACCOUNTING TREATMENT

2.1 GENERAL ACCOUNTING TREATMENT RULES

Revenues shall be recorded in the year in which they accrue to central government, as long as the revenues or the operating surplus/deficit for the year can be reliably measured.

The net expenses statement shall show revenues adjusted for settlement decisions that reject the validity of the claims initially recorded.

2.2 APPLICATION TO REVENUE CATEGORIES

2.2.1 Operating Revenues

The accrual criterion for goods shall be the delivery of the goods.

For services, the criterion shall be the performance of the services.

The revenues associated with long-term contracts shall be recorded in relation to the progress in the execution of the contract achieved on the reporting date, if the surplus/deficit resulting from the contract can be reliably estimated.

2.2.2 Intervention Revenues

The accrual criterion for intervention revenues shall be the official procedure recognising the revenues for the year.

2.2.3 Financial Revenues

The accrual criterion for financial revenue received as remuneration shall be the central government's acquisition of such remuneration prorata temporis.

Financial revenues received as premiums shall be recorded for the portion of the premium accruing during the year as calculated using the actuarial method.

The accrual principle for financial revenues arising from gains shall be the recognition of the gains, except in the case of derivative financial instruments used for hedging, where the criterion shall be the recognition of the expenses from the hedged item starting from the maturity of the derivative contract

3. DISCLOSURES IN THE NOTES

The nature and the amounts of receivables, deferred revenues and revenues to be spread over more than one year shall be presented in the notes, along with the accounting treatment of revenues to be spread over more than one year.

STANDARD 5

INTANGIBLE ASSETS

STANDARD 5 - INTANGIBLE ASSETS

INTRODUCTION

An analysis of some of the central government's operations leads to the question of whether it holds specific, intangible rights that should be recognised as assets.

In particular, the exercise of sovereign powers, under the principles set out in the French Constitution, gives the central government the power to collect various revenues. This raises the question of whether there is an intangible element linked to these revenues that meets the criteria for being recognised as an asset.

This question concerns sovereign revenues (tax revenues, fines, etc.) and revenues arising from the use of public property (concession fees, public property occupancy fees, fees for the use of broadcast frequencies, etc.)

Furthermore, transactions that could be assimilated with public service concessions need to be examined to see if the central government should recognise an intangible asset in its statement of financial position to represent the rights to the conceded assets.

Ultimately, the accounting treatment of intangible assets produced by the central government hinges on the notion of projects, applying the criteria used in business accounting standards for the accounting treatment of various types of internally produced assets.

I - CHOICES MADE PRIOR TO WORK ON ESTABLISHING THE STANDARD

I.1 - Problems Raised by the Specific Characteristics of the Central Government

I.1.1 - The collection of sovereign revenues cannot be attributed to intangible assets that should be recorded in the central government statement of financial position.

Sovereign revenues arise from the exercise of the central government's sovereign powers. These are revenues from other parties that do not directly receive a resource of equivalent value in exchange.

But it is impossible to break the exercise of sovereign powers down into distinct separate units and make a reliable valuation of their future economic potential.

Sovereign revenues usually arise from transactions carried out by other entities. For example, tax revenues stem from the taxpayers' taxable transactions, such as the receipt of income or the purchase of a good or service subject to the value added tax.

Consequently, the valuation of future economic benefits needs to be based on a projection of events that are beyond the control of the central government. The occurrence and characteristics of such events determine the collection of the various sovereign revenues and the amounts collected.

No practical method can provide reasonable assurance that such a valuation would be reliable or relevant.

I.1.2 - Transactions Where the Central Government Has the Power to Authorise or Restrict the Occupancy or Use of Public Property

I.1.2.1 - A transaction between the central government and another entity, where the other entity's financial statements show the acquisition or leasing of an intangible asset, does not necessarily mean that the central government's financial statements previously showed an intangible asset.

The exercise of sovereign powers is not limited to the collection of sovereign revenues. Some of the central government's resources arise from a different manner of exercising sovereign powers set out in specific laws that regulate the use of the public property under its control. Under these rules, the central government authorises and restricts other entities' occupancy and use of the public property under its control, as part of a delegation of public services in some cases.

These transactions may have an impact on the other entity's financial statements, resulting either in recognition of an intangible asset or recognition of an expense for the payment made for the use of the asset.

This raises the question of whether the intangible right exchanged in the transaction should have been recognised as an asset for the central government. In this case, such transactions would be disposals or leases of intangible assets that are already recognised in the central government's statement of financial position.

Yet, the relationship of the central government with the intangible right before the transaction is not the same as the relationship of the other entity with the intangible asset after the transaction. First of all, the central government has broad powers to authorise the use of assets, which are exercised in this case, but these powers may also apply to assets for which no use is planned at present. Secondly, the other entity intends to exploit the economic potential of a designated asset.

Consequently, it does not seem possible beforehand to determine with any reliability all of the future economic benefits that could flow to the central government from its broad powers to authorise or restrict the occupancy or use of the public property under its control.

I.1.2.2 – On the other hand, after the transaction, it should be determined whether the central government should recognise an intangible asset associated with the right in question.

Each transaction reveals the economic potential flowing from the power of authorisation over a designated element of public property controlled by the central government.

If, after the transaction, the central government no longer holds any rights or can no longer enjoy the future economic benefits, then the economic potential derived from the exercise of such power has been exhausted for good.

If, on the other hand, the central government retains control of the future economic benefits attached to this power, a verification should be made to see if the designated asset meets the criteria for recognition as an intangible asset. If the criteria are met, an intangible asset is recognised in accordance with the method used for assets acquired free of charge. The intangible asset is valued using the discounted cash flow projections.

As a general rule, the way to know whether the central government retains future economic benefits after the transaction that could constitute an intangible asset is to determine whether the transaction is, in substance, an irrevocable and complete disposal, a temporary or partial disposal, or a lease to a previously identified right. An intangible asset can only be recognised in the financial statements in the case of a temporary or partial disposal or a lease.

I.1.3 - The derecognition of an asset conceded by the central government does not give rise to recognition of an intangible asset.

Standard 6 on tangible assets calls for the recognition of the countervalue of the carrying amount of the conceded asset for the term of the concession contract. This accounting treatment is aimed solely at recording the temporary derecognition of a previously recognised tangible asset.

The new asset being recognised does not represent an intangible right accruing to the central government as a result of the concession contract.

I.2 - Accounting Treatment for Intangible Assets that are Not Specific to the Central Government

The central government, like a business enterprise, needs to acquire or produce intangible assets in order to adapt its operations to technological change and to improve its efficiency. Such assets often take the form of tools related to new information and communication technology, such as software or web sites.

The accounting treatment of intangible assets serves two purposes:

- It presents a view of the central government's investments in these areas. For example, it seems necessary to account for the major computer projects undertaken by the various ministries.*
- It makes it possible to allocate expenses over the useful life of intangible assets through an amortisation system.*

Tracking purchased intangible assets does not seem to raise any problems, since they are the result of a specific transaction: a purchase. The information needed to recognise them in the financial statements can be taken directly from the invoice issued by the seller.

The situation is different for internally generated intangible assets. These are the result of an accounting mechanism whereby expenditures initially recorded as expenses are capitalised. This means it is critical to track such expenses before considering their capitalisation.

The introduction of a project notion is being considered to track material expenditures. This makes prior official designation of work that is likely to produce an intangible asset necessary.

The Standard applies the principle of breaking each project down into a preliminary research phase and a development phase. The two phases are distinguishable because, in the preliminary research phase, the uncertainties are so great that it is impossible to constitute an intangible asset. This means that only the expenditures on the development phase can be capitalised.

The Standard sets out the general accounting treatment criteria to be applied during the development phase of a project. General criteria seem to be more appropriate than specific criteria for each category of intangible assets. The precision required for formulating specific criteria could make them obsolete as technology evolves.

Setting a capitalisation threshold should make it possible to select only the largest projects.

II - POSITION WITH REGARD TO OTHER ACCOUNTING STANDARDS

The Standard draws its inspiration from elements in various sources dealing with intangible assets. The Standard presents the central government's intangible assets on the basis of a definition and general accounting treatment criteria that are consistent with the principles applied in existing standards.

The points discussed below explain the links between this Standard and existing standards on the accounting treatment of intangible assets that are not specific to central government.

II.1 - Scope and Accounting Treatment

Intangible assets that are not specific to the central government are similar to the items recognised in businesses' financial statements. They correspond to items described in the French Plan comptable that are likely to be recognised in this category of assets. Recognition of these assets makes it possible to capitalise expenditures made to start up a business or improve a company's capacities. However, this Standard does not cover some items that are specific to businesses, such as start-up costs and goodwill.

The project notion and the related accounting treatment criteria introduced in this Standard are an adaptation of the criteria defined in IAS 38 for "intangible assets arising from the development phase of an internal project" (the term "development" has a broader definition in IAS 38 than the commonly accepted definition). The project notion proposed here appears to be consistent with the rules of the French Plan comptable for internally produced software and for research and development costs.

IAS 38 also describes the accounting treatment for an asset that embodies both tangible and intangible elements. In this case, judgment is required in assessing which of the two elements is more important. This accounting treatment can be used for cases where the intangible asset is recorded on a physical medium (compact disk, etc.) or when it is critical for the use of a tangible asset (computer, machine tool, etc.)

II.2 - Valuation

The initial valuation of a central government intangible asset complies with the French Plan comptable rules. The provisions of Accounting Regulation Committee Regulation 2002-10 of 12 December 2002 on the amortisation and impairment of assets are applied for subsequent valuations.

STANDARD 5 - INTANGIBLE ASSETS

STANDARDS

1. SCOPE

This Standard shall apply to central government intangible assets, meaning:

- intangible assets embodying future economic benefits attributed to the central government through the exercise of the specific powers to authorise the occupancy or use of a designated item of public property under its control. Such assets must be revealed in a transaction with another entity;
- intangible assets embodying expenditures on an identifiable and lasting improvement in the central government's capacity to perform its tasks.

Such intangible assets may be purchased or produced internally through the completion of a project. They include patents and similar rights, software and web sites that are not solely for information purposes.

If an intangible asset is recorded on a physical medium, the added value provided by the content needs to be assessed: if the value of the blank medium is negligible compared to the value added by the content, the asset made up of the medium and its content shall be recognised as an intangible asset.

On the other hand, this Standard shall not apply to:

- intangible assets linked to the exercise of sovereign powers:
 - when this exercise gives rise to revenues with no direct exchange of equivalent value (sovereign revenues);
 - when this exercise gives rise to broad powers to authorise or restrict the occupancy or use of central government public property or any other asset where the central government controls access.
- expenditures incorporated into the initial valuation of an intangible asset.

If an intangible asset incorporates an intangible element and a tangible element, no intangible asset shall be recognised if the tangible element cannot work without the intangible element. The entire asset shall be recognised as a tangible fixed asset.

2. ACCOUNTING TREATMENT

2.1 GENERAL ACCOUNTING TREATMENT RULES

An intangible asset shall be recognised in the financial statements if it meets the following conditions:

- it is identifiable and its cost or value can be reliably measured;
- the future economic benefits or service potential are likely to benefit the central government.

An intangible asset shall be recognised at the delivery date or the date when the associated rights are transferred to the central government.

2.2 SPECIFIC RULES

- **Intangible assets embodying future economic benefits attributed to the central government through the exercise of its specific powers to authorise the occupancy or use of a specific item of public property under its control**

Intangible assets subsequent to authorisations for the occupancy or use of a specific item of public property under the central government's control shall be recognised upon the conclusion of the transaction that reveals the future economic benefits attributed to the central government. The counterpart to the creation of such intangible assets shall be recorded in the statement of financial position.

- **Internally generated intangible assets**

Internally generated intangible assets are intangible items created and identified through the completion of a planned project, when it can be shown that such assets meet the criteria for recognition as intangible assets. Internally generated intangible assets may arise from such activities as the development of a manufacturing process for a new material or the production of new software.

Project Phases

As a general rule, a project goes through the following phases:

- a preliminary research phase that usually involves acquiring new knowledge, analysing needs, defining final objectives, evaluating various technical possibilities, choosing a solution and determining what resources are needed;
- and a development phase that generally involves using the results of the research phase and other resources to produce the chosen solution.

The completion of the development phase of a project corresponds to the production of the final results planned and precedes the operational implementation of the intangible asset.

Some projects involve research only (acquisition of new knowledge, design and evaluation of different technical solutions, etc.)

If a project starts directly with the development phase, this circumstance must be explicitly stated before the project gets under way.

Specific Accounting Treatment Requirements

If a project involves research only, the expenditures for the project shall be recorded as expenses.

As a general rule, expenditures for the research phase of a project must be recorded as expenses, since, in this phase, the existence of an intangible asset cannot be proven.

If no distinction can be made between the two phases discussed above, all of the expenditures for the project shall be recorded as expenses.

On the other hand, an internally generated intangible asset arising from the development phase of a project should be recognised, if it can be shown that the following conditions have all been met simultaneously:

- the project is likely to succeed technically since it is reasonable to assume that the objectives are feasible given the existing technical knowledge;
- the central government intends to complete the project and use the results;
- the central government can show how completion of the project will generate future economic benefits or service potential for several years;
- the central government has the ability to use the results of the completed project;
- the central government has adequate technical, financial and other resources to complete the project;

- the central government has the ability to measure the expenditures attributable to the project during the development phase reliably.

In addition to the above conditions, the expenditures for the development phase of a project can only be capitalised if their total value is greater than a threshold set for this type of asset.

Before the completion of the project, the expenditures for the development phase are recognised as work in progress of intangible assets.

Once the project is completed, all of the expenditures since the start of the development phase shall be capitalised as an intangible asset. No further expenditure on the project should be recognised as work in progress of intangible assets.

If a project is shown to be unfeasible during the development phase, all of the capitalised expenditure must be recognised as expenses.

2.3 RECOGNITION OF SUBSEQUENT EXPENDITURES

Subsequent expenditures on an intangible asset after its recognition shall be recognised as expenses, unless they enable the asset to exceed its originally assessed standard of performance

3. VALUATION

3.1 INITIAL VALUATION

3.1.1 General Provisions

When intangible assets are first recognised in the central government financial statements, they shall be valued:

- at their acquisition cost (for assets acquired for a purchase consideration);
- at their production cost (for internally generated assets);
- at their market value (for assets acquired free of charge).

3.1.2 Specific Provisions

Intangible assets embodying future economic benefits attributed to the central government through the exercise of its specific powers to authorise the occupancy or use of a specific item of public property under its control shall be revealed by transactions with other entities.

When the transaction occurs, the intangible right shall be valued reliably using the central government's discounted cash flow projections.

The decision or procedure signifying the transaction should provide all of the elements necessary for the valuation. Failing that, or if the valuation depends on the occurrence of uncertain events, no recognition shall take place.

3.2 DERECOGNITION OF INTANGIBLE ASSETS

Gains or losses arising from the retirement or disposal of an intangible asset should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognized as revenues or expenses.

3.3 SUBSEQUENT VALUATION

An intangible asset shall be carried at its initial recognition amount less accumulated amortisation and accumulated impairment losses.

When an intangible asset is initially recognised, it must be determined whether it can be amortised. Amortisation is possible when intangible assets have a determinable useful life, meaning their usefulness is expected to be limited in time.

At the recognition date of an intangible asset eligible for amortisation, the amortisation schedule shall be defined to reflect the consumption of the expected economic benefits and service potential over time.

At reporting date, an assessment needs to be made to see if there is evidence that the value of an intangible asset has declined significantly. When there is evidence of a loss, an impairment test should be conducted.

Changes in value shall be recognised as follows:

- Amortisation:

At each reporting date, an amortisation allocation shall be recognised according to the amortisation schedule defined at the initial recognition date.

Amortisation of an asset shall start on the date when the consumption of the associated economic benefits or service potential starts. This is usually the date of the operational implementation of the asset.

Amortisation allocations shall be recognised as expenses.

- Impairment Losses:

Any loss of value observed at the reporting date shall be recognised as an impairment loss and recorded as an expense.

4. DISCLOSURES IN THE NOTES

4.1 VALUATION METHOD FOR EXPENDITURES ATTRIBUTABLE TO CAPITALISED PROJECTS

The notes shall explain the methods used to value the expenditures for the development phases of projects giving rise to the recognition of an intangible asset.

4.2 INFORMATION ABOUT AMORTISATION AND IMPAIRMENT LOSSES

The notes shall contain the following information, when it is material.

Amortisation

Information about the following for each asset category:

- amortisation periods and rates;
- amortisation methods;
- the nature and consequences of a new valuation having a substantial impact during the year, when they can be expected to have a significant impact in subsequent years.

Impairment Losses

The notes shall provide the following information about significant individual impairment losses recognised or reversed during the year:

- the amount of the impairment loss recognised or reversed;
- the carrying amount recorded, the net selling price or the value in use:

- if the net selling price is used, the basis used to determine the market price (reference to an active market or any other method);
 - if the value in use is used, the methods used to determine this value.
- the events and circumstances that led to the recognition or reversal of the impairment loss.

A summary statement shall make it possible to track the gross carrying amount, accumulated amortisation and accumulated impairment losses for each asset category at the start and the end of the period.

STANDARD 6
TANGIBLE ASSETS

STANDARD 6 - TANGIBLE ASSETS

INTRODUCTION

The Standard on “tangible assets” deals with two main issues:

- *Which assets should be recognised as tangible assets in the central government’s statement of financial position?*
- *Which amount should be recorded for these assets in the central government’s statement of financial position?*

I – SCOPE AND ASSET RECOGNITION CRITERIA

I.1 – Definition of an Asset in Public Sector Accounting

In business accounting, assets are usually defined as items that can be used to generate future cash flows. This line of reasoning does not apply to the primary characteristics of most central government assets. Therefore, such assets are also defined with reference to service potential or, according to the terminology used by the IFAC Public Sector Committee, they are defined as assets “embodying service potential” that do not generate cash flows.

I.2 – Control Criterion

The Standard on “tangible assets” sets out the requirements for recognising any of the property under the central government’s control as assets.

Central government assets consist of a set of rights and obligations carrying an economic value. An asset is a balance sheet item that has a positive economic value for the central government, meaning that it is a resource controlled by the government as a result of past events and that is expected to produce economic benefits in the future. Control over the benefits means that the entity has the ability to govern the benefits and that it bears some or all of the related risks.

The central government controls a tangible asset because it controls its right to use it. For the purposes of recognition in the central government financial statements, control over the right of use is determined as follows:

- *it is assessed on the basis of the existence of a right to the resource. Consequently, a tangible fixed asset is not recognised, even though the central government owns it, if it can be shown that the government can derive no economic benefit or service potential from the asset.*
- *obligations may arise from control over an asset, when it is certain or likely that this control will entail an outflow of resources for the entity controlling the asset. Bearing the main expenses related to ownership of the controlled asset proves the existence of an obligation, which must be considered as a presumption that control exists.*

These criteria mean that the central government recognises assets that it does not own in its financial statements, but it controls them and manages them (e.g. assets used under the terms of a finance lease). The corollary to this is that the central government financial statements do not recognise assets that the central government owns, when other entities manage them and incur the risks and enjoy the benefits of ownership (e.g. conceded assets).

The control criterion is intended to make the central government’s financial situation easier to understand.

It means that assets and transactions are recognised when they have an impact on economic resources, obligations or service potential. Failing to recognise these assets would lead to understatement of the corresponding rights and obligations in the central government's statement of financial position.

Symmetrically, this criterion prevents recognition in the central government's statement of financial position of assets controlled by other entities, when such recognition would lead to overstatement of the central government's rights and obligations.

Applying the control criterion solely to the central government could give a partial view of public assets if the criterion is not seen in a broader context. Understanding of the criterion requires a grasp of the distinction between direct control and overall or indirect control. The preliminary division of assets and liabilities between the central government and other public entities is made in the separate financial statements. It will be satisfactorily carried through in the steps towards consolidation.

I.3 - Scope

I.3.1 – Assets Covered by Finance Leases

The Standard opts for a solution based on the fact that finance leases transfer substantially all of the risks and rewards of ownership of the leased asset to the lessee. Title to the asset may or may not eventually be transferred.

The lease is recognised both as an asset and as an obligation to make future lease payments.

This choice was based on an assessment of the economic substance of a finance lease, whereby the lessee acquires the economic benefits of use of the leased asset for most of its useful life and undertakes to pay an amount that is approximately equal to the fair value of the asset, plus the corresponding financing costs, in exchange for this right.

The European System of National Accounts (ESA95) also applies an approach based on control over assets. "The ESA shall present the economic substance of finance leases by recording the transaction as a loan from the lessor to the lessee that enables the latter to purchase a durable good and obtain de facto ownership. The ESA deems that the durable good is owned by the lessee right from the start of the lease term" (ESA95, Annex II).

I.3.2 – Other Items Determining the Scope of Application

*Financial and accounting regulations governing **national public establishments** require such establishments' statements of financial position to record all of the assets that they manage and control and not just the assets that they own. The reasoning used considers that the sole purpose of the statement of financial position is not to determine the rights of other entities with regard to the public entity, but to give the authorities that manage, govern and supervise the entity accurate information about the substance and the value of the assets handed over to the public establishment on a permanent basis, and in any form whatsoever, in order to provide the entity with the means to achieve its objectives.*

For this reason, assets owned by the central government and handed over to public establishments without transfer of ownership are recorded in the financial statements of the latter. These resources are handed over to the public establishments in the form of allocations or endowments and they are recorded on the balance sheet as stable capital contributions or equity investments.

*According to Article 393-1 of the French Plan comptable, assets conceded under **concession** agreements are to be recorded as assets on the balance sheet of the concession holder.*

Substance prevails over form and the transactions relating to the concession are recorded in the financial statements of the concession holder. The relevant rules continue to apply in order to maintain the unity of

concession accounting, which is intended to be a management tool and financial tool for the concession holder.

If the conceded assets shown on the concession holder’s balance sheet had previously been recorded as tangible assets in the central government’s financial statements, then they can also be recorded in the central government’s statement of financial position under a specific item entitled “countervalue of conceded assets” until they are returned.

I.4 – Asset Identification Criteria

The constituent elements of an asset are broken down as follows in the asset identification criteria.

Complex and delicate analysis is required when several of the constituent elements of an asset are of a different nature than the main asset. Implementing separate recognition of asset items in central government financial statements calls for further research into how applicable separate recognition is and into the information systems that would be required. Similarly, provisions for expenses relating to major repairs or maintenance programmes are not made in compliance with new regulations or with international standards.

I.5 – Tangible Fixed Asset Categories

The land and buildings controlled by the central government are very diverse in age and in nature. Their relationship to central government property and their uses may be very different, and the same asset may have several uses.

Consequently, land and buildings are classified as specialised or non-specialised.

Non-specialised buildings are buildings that could be sold to other entities for ordinary use as offices, housing, etc., subject to limited remodelling. It is technically and economically feasible to sell these buildings. An amendment to the public property code should make the legal framework more flexible.

The following examples illustrate the notion of non-specialised buildings:

<i>Ordinary buildings</i>	<i>Office buildings Residential buildings Warehouses Garages, etc.</i>
<i>Adaptable buildings</i>	<i>Heritage buildings housing or suitable for housing government services¹² Police stations Technical facilities, etc.</i>

Specialised buildings are buildings that cannot be used for ordinary purposes, such as certain historical monuments or sites.

II - VALUATION

II.1 – Initial Valuation

When the initial statement of financial position is drawn up, the general principle of valuation at acquisition cost can be applied to most central government assets.

¹² *Examples: the building housing the mint headquarters, government-owned buildings around the Palais Royal gardens, the Court of Auditors building, the Paris Courthouse, etc.*

However, unlike a business, which has a precise and known start-up date, one of the special characteristics of the central government is the permanence of its action. The time scale means that acquisition costs may be lost in the ancient past or meaningless. To overcome the lack of determinable acquisition cost, a valuation should be made and the market price can provide a recent indicator, even when it cannot be observed directly.

Once the first statement of financial position has been drawn up, the usual business accounting rules can be transposed for the initial valuation of the central government's tangible assets, except in the case of roads, where the depreciated replacement cost is applied.

II.2 – Rules for Subsequent Valuations

II.2.1 – Assets with a Determinable Useful Life

The task is to determine beforehand the suitable depreciation methods and impairment tests for each asset category.

An asset is depreciated by a systematic allocation of the depreciable amount over its useful life. It should be possible to determine the useful life of the asset, which is measured by the consumption of the expected economic benefits from the asset through use that is limited over time. This makes it possible to calculate the depreciation amount as the difference between the initial value and a reliable estimate of the residual value.

This method is used for assets where the initial valuation is based on cost. It is also used for assets valued at their market value in the first statement of financial position when the market value is treated as an acquisition cost. Business accounting practices can be transposed directly to central government accounting for certain types of assets (furniture, computer equipment, etc.), but they have to be adapted for some other assets, such as military equipment and roads.

As a general rule, assets are depreciated and impairment tests are conducted if there is evidence of a loss in value.

II.2.2 – Assets with No Determinable Useful Life

When assets have a very long useful life that cannot be determined, an utilisation measurement is calculated to recognise the corresponding expense.

The measurement is called utilisation expense. It is determined on the basis of the market value of the assets and not derived from a depreciable amount. In addition to the difficulties in determining the useful life, the market value of very old assets shows that the residual value is very high in many cases. Consequently, the depreciable amount cannot be determined, regardless of the useful life assigned to the asset.

This applies to non-specialised buildings carried at their market value.

The market value of the entire stock of old and recent buildings should be determined and recorded annually to ensure uniform treatment of the value of land and buildings and to calculate the annual utilisation expense. The valuation rules should be defined according to the technical characteristics of the buildings (floor area, condition, etc.) and trends in the local market.

Positive and negative revaluations of land and buildings shall be recognised under the procedures set out in the Standard, along with the annual utilisation expense.

The net selling price of an asset can be useful for the manager occupying the asset. It is a helpful tool for management knowledge, choices and discussions.

III – POSITION WITH REGARD TO OTHER ACCOUNTING STANDARDS

Under the terms of Article 30 of the Constitutional bylaw of 1 August 2001 on the budget, this Standard complies with the general principles of business accounting, except for differences warranted by the specific nature of the central government's activity.

The Standard on tangible assets is based on the Accounting Regulation Committee Regulations cited below and it is consistent with the French Plan comptable. When required by the specific nature of the central government's activity or when they coincide with the French Plan comptable principles, the rules set out in the IFAC¹³ International Public Sector Accounting Standards (IPSAS) are applied in the cases described below.

The notion of control used in this Standard is the one recommended by the French National Accounting Council for defining assets (see survey report of 22 October 2002). This notion corresponds to the principle set out in IPSAS 17 and IAS 16 on property, plant and equipment.

The references are as follows for the specific points listed below:

The finance lease provisions refer to the order of 22 June 1999 approving French Accounting Regulation Committee Regulation 99-02 of 29 April 1999 on the consolidated financial statements of commercial companies and government business enterprises, and to IAS 17 and IPSAS 13 on leases, which stipulate recognition of the leased assets on the lessee's statement of financial position.

The cofinancing provisions draw their inspiration from the recognition rules for capital grants (Article 362-1 of the French Plan comptable).

Assets covered by public service concessions are subject to the accounting measures set out in Article 393-1 of the French Plan comptable.

The rules applying to the initial valuation for the first statement of financial position refer to the rules under Article 321-1 of the French Plan comptable, except in the case of roads, which are valued at their depreciated replacement cost on the basis of data provided by the Highways Directorate at the Ministry of Public Works. This treatment is also used for the starting statement of financial position and for subsequent valuations.

Costs for dismantling and removing plant and equipment and costs for restoring the sites are treated with reference to the French National Accounting Council's Opinion 00-01 of 20 April 2000 on liabilities and French Accounting Regulation Committee Regulation 2000-06 of 7 December 2000 on liabilities.

The provisions on the initial valuation of assets in the starting statement of financial position comply with the general acquisition cost valuation principle set out in the French Plan comptable. The provisions on valuation of non-specialised land and buildings refer to IPSAS 17 (paragraph 23).

As a general rule, subsequent valuations of assets use depreciation and impairment tests in the event of a loss in value, in keeping with Regulation 2002-10 of 12 December 2002 on depreciation and impairment of assets.

The valuation of non-specialised land and buildings draws its inspiration from the alternative treatment allowed by IPSAS 17.

¹³ *The International Public Sector Accounting Standards (IPSAS) are international standards applying to central governments and the public sector in general. These standards were developed by the Public Sector Committee of the IFAC (International Federation of Accountants).*

STANDARD 6 - TANGIBLE ASSETS

STANDARDS

1. SCOPE AND ASSET RECOGNITION CRITERIA

1.1 TANGIBLE ASSETS

A tangible asset is an identifiable tangible asset that is usually identified in a tangible inventory,

- that is expected to be used during more than one period,
- and that has a positive economic value for the central government.

In the case of the central government's tangible assets, this positive economic value shall be represented by the expected future economic benefits or service potential to be derived from the use of the asset.

1.2 CRITERION OF CONTROL OVER THE FUTURE ECONOMIC BENEFITS OR SERVICE POTENTIAL

Tangible assets under the central government's control shall be recorded in its statement of financial position.

Control is generally established through a specific legal form (ownership or right of use) and shall be characterised by:

- the ability to govern the conditions for using the asset;
- the ability to govern the service potential and/or future economic benefits derived from using the asset.

The fact that the central government bears the risks and expenses incurred in holding the asset shall also constitute a presumption of control.

1.3 IMPACT OF THE CONTROL CRITERION

1.3.1 Assets Covered by Finance Leases

This Standard shall apply to assets that the central government holds under the terms of leases, other than straightforward rental contracts, where the control criterion is met and the tangible fixed asset definition given above applies.

To meet the control criterion, the finance lease must transfer substantially all of the risks and rewards incident to ownership of the asset to the central government.

These risks are the losses associated with under-utilisation of the asset compared to its initial potential, technical obsolescence or a decline in performance.

The rewards are the likely performance of the asset over its useful life, the gains arising from the increase in the value of the asset or the realisation of its residual value.

1.3.2 Co-Financed Assets

Tangible assets that are co-financed by the central government and other entities shall be recorded in the central government's statement of financial position, as long as they meet the identification and control criteria.

These assets shall be carried at cost, as defined in paragraph 2.1.1.1. The financing provided by other entities is shown as a liability on the central government's statement of financial position under prepaid revenues.

The amount of external co-financing shall be recorded in the statement of financial performance as follows:

- If the co-financed asset is depreciable, the external co-financing shall be expensed at the same rate and over the same period as the depreciation amount recorded each year.
- If the asset cannot be depreciated, an annual expense equal to one tenth of the external co-financing shall be recorded each year.

1.3.3 Assets Made Available to the Central Government

The assets concerned are made available to the central government free of charge or for a nominal rent. Usually, this refers to buildings that belong to a local authority and are made available to the central government to house offices as part of a sharing agreement covered by decentralisation legislation. In this case, the central government must control the asset in order to recognise it on its statement of financial position. This means it must have the power to manage the asset and it must bear the associated risks and expenses.

1.3.4 Concessions

Assets placed under the control of concession holders shall be subject to accounting regulations that require them to be recorded as assets by the entities in question. The carrying amount of conceded assets that had previously been recorded as assets by the central government shall be recorded in the central government's statement of financial position under a specific item entitled "countervalue of conceded assets".

The notes to the financial statements shall include a list of concession contracts, classified into the main categories.

1.3.5 Assets Handed Over to Public Establishments

Assets placed under the control of industrial, commercial and administrative public establishments shall not be recognized in the central government's statement of financial position. The entities concerned shall show them as assets in their own balance sheets.

1.4 – TANGIBLE FIXED ASSET CATEGORIES

The control criterion set out above restricts the tangible assets to be recorded in the central government's statement of financial position and makes distinctions between the following categories:

1.4.1 Land

Land shall be classified and tracked differently if it is specialised or non-specialised in nature.

Non-specialised land is land that can be used for many purposes. Therefore it may be transferred to other entities for similar or different use following limited remodelling.

The land concerned is building lots, military land and cultivated land.

Specialised land includes sites of a special nature, such as cemeteries, or natural sites, such as forests, beaches, dunes, ponds and lakes.

1.4.2 Non-Specialised Buildings

The stock of non-specialised buildings owned by the central government shall be characterised by the fact that the central government itself or other entities may use these buildings for more than one purpose. Buildings that are not specialised for central government purposes and activities shall include ordinary buildings housing administrative, industrial and commercial activities or accommodating civil servants. This category shall be extended to encompass buildings that would be fairly easy to convert to other activities.

1.4.3 Specialised Buildings

The tangible characteristics of specialised buildings, which would make use by other entities impossible unless extensive remodelling is carried out, shall be the key criteria for classifying buildings in this category.

Buildings in the category shall be classified differently if:

- the building offers an identifiable service potential and is used for activities specific to the central government; the buildings cannot be converted to ordinary use unless extensive remodelling is carried out (e.g. heritage building housing a museum);
- the building offers no measurable service potential because the potential is linked to the intrinsic historical or cultural nature of the building, which has no equivalent on the market.

1.4.4 Infrastructures

These assets are infrastructures controlled by the central government, meaning that they belong to the central government and have not been conceded. They are facilities for transport and communication on the ground, under the ground, by rail and by water, along with dams and airfields.

This category of tangible assets mainly covers roads and the associated structures. More specifically, it covers motorways that have not been conceded and the national highway network that is not under decentralised management.

1.4.5 Military Equipment

This category of assets covers all military equipment held and controlled by the ministry of defence and its different branches: air, land and sea.

1.4.6 Paintings and Works of Art

This category covers the paintings and works of art under the control of the central government. In practice, this control is the same as central government ownership of the art.

1.4.7 Other Tangible Assets

Other tangible assets are tangible assets that the central government uses in the same way as a business would. Business accounting rules on asset identification, initial valuation and subsequent valuation can be transposed directly to the central government accounting treatment of this category of assets. The initial cost is generally known and corresponds to the acquisition cost. Assets with a determinable useful life can be depreciated.

The physical items that can be identified as tangible assets are mainly:

- general fixtures and fittings in buildings (telephone systems or heating systems);
- technical equipment and tools;

- vehicles, office equipment, computer equipment;
- furniture.

1.5 EVENT GIVING RISE TO RECOGNITION OF A TANGIBLE ASSET IN THE CENTRAL GOVERNMENT STATEMENT OF FINANCIAL POSITION

1.5.1 Recognition Date for a Tangible Asset

The asset shall be recognised at the date when the risks and rewards of control are transferred. As a general rule, this takes place when the asset is delivered or the service is rendered.

1.5.2 Explanation on the Transfer of Risks and Rewards

The inception of a finance lease is the earlier of the date of the lease agreement or of a commitment by the parties to the principal provisions of the lease.

When assets are made available to the central government or are free of charge (donations, bequests and dation in payment), or when the central government purchases land and buildings, the signature of the deed or agreement shall constitute the event triggering recognition.

1.6 TANGIBLE ASSETS, EXPENSES AND INVENTORIES

1.6.1 Distinction between Expenses and Tangible Assets

Tangible assets are items for the long-term use of the central government that are not consumed when first used. As a general rule, expenditures on movable or immovable goods of some substance that are to remain the property of the central government for a long period shall constitute capital expenditures.

However, some low-value goods may be classified as expenses and not as assets. This exemption concerns “equipment and tools” and some military equipment (ammunition for small arms).

A threshold shall be set for each major asset category, with due consideration for the specific nature of military equipment.

Furthermore, asset recognition criteria shall be applied as follows in the situations set out below:

- the criteria for recognising and recording tangible assets shall apply to the aggregate value of a group of low-value items. Purchases that are individually recognised as expenses, in view of the threshold set for asset recognition, may be capitalised as long as they become the property of the central government in lots. An example of this type of purchase would be the acquisition of a set of computers which are recognised as an asset for their aggregate value;
- some major spare parts or stand-by equipment, as well as some large-scale “ammunition” (missiles), shall be recognised as tangible assets if they are used during more than one period;
- spare parts or servicing equipment that are only for use in connection with a tangible asset and that are not used on a regular basis shall be recognised as tangible assets.

These assets shall be recognised at the time the tangible asset concerned is acquired or produced.

Design and research costs are generally recognised as operating expenses in the period during which they are incurred. However, if certain conditions are met, some research costs may be capitalised (see paragraph 2.1.1.4).

1.6.2 Inventories and Tangible Assets

Items classified as inventories are not intended for long-term use by the entity in the course of its activity.

Most spare parts and servicing equipment shall be carried as inventory and recognised as expenses when they are used. However, some of them, with regard to their amount and their use, shall be recognised as assets if their useful life exceeds one period (see previous paragraph).

2. VALUATION AND ACCOUNTING TREATMENT RULES

2.1 INITIAL VALUATION

2.1.1 Valuation of Assets Acquired by the Central Government after Its First Statement of Financial Position is Drawn Up

When assets are first recognised in the central government financial statements, they shall be valued:

- at their acquisition cost (for assets acquired for a purchase consideration);
- at their production cost (for internally generated assets);
- at their market value (for assets acquired free of charge).

2.1.1.1 Assets Acquired for Purchase Consideration

Assets acquired for purchase consideration shall be valued at their acquisition cost. The cost shall comprise the purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates shall be deducted in arriving at the purchase price. Ancillary costs to be added to the purchase price shall include:

- costs for site preparation;
- initial delivery and handling costs;
- installation costs;
- professional fees such as for architects and engineers.

On the other hand, financial, administration and other overhead costs shall not be a component of the cost of a tangible asset unless they can be directly attributed to the acquisition of the asset or bringing the asset to its working condition. Similarly, start-up and similar costs shall not form part of the cost of an asset unless they are necessary to bring the asset to its working condition.

2.1.1.2 Assets Covered by Finance Leases

The central government statement of financial position shall show leased items as assets and liabilities of equal value at the inception of the lease. They shall be recorded at the lower of the market value of the leased item and the present value of minimum lease payments. The lease shall therefore be recognised both as an asset and as an obligation to make future lease payments.

Direct initial costs for negotiating and securing lease agreements may be incurred for specific leasing activities. The costs shall be included as part of the amount recognized as an asset under the lease.

Lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability.

2.1.1.3 Internally Generated Assets

Assets that the central government generates internally shall be valued at their production cost. This cost shall be the cost of supplies and the other costs incurred by the central government during the production operations to bring the asset to its present condition and location.

2.1.1.4 Other Assets

Assets Acquired Free of Charge

Assets acquired at no charge (through donations and bequests to the central government, vacant and abandoned property, assets from escheated estates, confiscation of criminal assets, etc.) shall be recognised at their market value at the acquisition date. If there is no market, then the price that a buyer would be presumed to be willing to pay for the asset in its present condition and location.

Assets Acquired through Exchanges

A tangible asset may be acquired in exchange or part exchange for another tangible or another asset. The cost of such assets shall be valued at the market value of the exchanged asset, adjusted for the amount of cash or cash equivalents transferred in the exchange. If no reliable value can be determined, the carrying amount of the exchanged asset shall be the cost measurement for the asset acquired in the exchange.

Special Considerations

Cost of dismantling and removing assets or restoring a site:

If required by law or regulations or by a voluntary undertaking of the entity, the estimated dismantling and removal cost, along with the cost of restoring the site (decontamination) can be included in the initial asset value as the counterpart to a provision recorded as a liability. The cost recognised must meet the asset recognition criteria. It must be easy to identify, reliably measured and correspond to a certain obligation. On the other hand, if the cost of restoring the site does not give rise to future economic benefits and is instead part of the settlement of a past situation, no asset is recognised (e.g. provision set aside immediately for the total clean-up cost of a pollution accident).

Research related to a tangible asset:

as a general rule, capitalisation of applied research costs and development costs are covered by the provisions of the Standard on intangible assets. In exceptional cases, when expenditures contribute to the creation of a tangible asset (building a laboratory or prototypes) they are capitalised with the assets concerned. However, if the prototypes can be sold and used for a single order, they are recorded as inventories.

2.1.2 Special Rules for Asset Valuation for the Initial Central Government Statement of Financial Position

2.1.2.1 General Case: Valuation at Acquisition Cost

Assets shall be valued at their acquisition cost for the initial central government statement of financial position. This shall apply to tangible assets, such as:

- civilian equipment (office equipment, furniture, computer equipment, transport equipment, etc.);
- military equipment (tanks, fighter planes, submarines, etc.).

The initial costs for these assets are known in most cases. Failing that, statistical methods can reconstitute the costs if they are too old for their initial costs to be found. Catalogue prices and useful life calculations can be used to reconstitute the net value, for example.

2.1.2.2 Special Valuation Rules for Certain Central Government Assets

No relevant acquisition cost can be found for certain assets, either because it is unknown or because the asset is too old for the cost to be meaningful.

Assets with a Directly Observable Market Value

Market value shall be used as the initial cost for this category of assets.

This shall apply to land and buildings used for purposes that are not specific to the central government.

The market value of these assets shall be derived from observation of prices in recent transactions involving assets with the same characteristics under similar circumstances and in a local area with a comparable real estate market. The resulting price range shall factor in various criteria, such as surface area, condition, luxury or the year of construction. These various factors shall be included in a market study of the area where each asset is located so as to facilitate subsequent valuations.

Special cases:

Some assets are used for a specific central government purpose (prisons, barracks), but they could be sold to another entity and converted for other activities after renovation and remodelling. The net selling price of such assets must factor in ancillary elements since they cannot be sold as is. The elements that constitute the conversion value need to be considered to arrive at the market value, which is:

- either the value of the land, less the demolition costs, when the existing buildings are not to be preserved;
- or else the value of the buildings, less the cost of remodelling and refitting.

Assets with No Directly Observable Market Value

The acquisition cost of some government assets is not known and there is no accepted and identifiable market value. This is the case for specific assets such as roads or assets that have only historical or cultural uses.

These assets are distinguished as:

- *assets with a specific measurable service potential, such as roads.*

These assets shall be valued at their depreciated replacement cost, which means a valuation based on an estimate of the cost of replacing them with a similar asset offering the same service potential.

This is the case for roads and the related structures, which shall be valued at their depreciated replacement cost. This cost shall be derived from the reconstruction cost depreciated by the estimated cost of restoring the infrastructures.

The national highway network not operated by concession holders shall be recognised:

- as a tangible asset at its gross reconstruction cost;
- depreciated by the aggregate cost of restoring the network. Furthermore, work in progress is capitalised as an asset.
- *assets with an unmeasurable service potential related directly to their nature (specialised land) or their symbolic value (cathedrals).*

These assets are valued:

- at a non-revisable symbolic or arbitrary cost. The main purpose of this valuation is to ensure consistency between physical and accounting inventories and consistency between flows and levels. The statement of financial position shall record this value, along with the work in progress on such assets;

- or, in exceptional cases, at reproduction cost for assets deemed to have great symbolic and cultural value.

Special Case for Works of Art

Works of art in central government collections at the time the initial central government statement of financial position is drawn up shall be recognised at a symbolic value. Subsequent acquisitions of works of art shall be recognised as assets at their acquisition cost.

2.2 SUBSEQUENT EXPENDITURES

2.2.1 General Principle

Subsequent expenditure relating to a tangible asset that has already been recognized shall be added to the carrying amount of the asset when it is probable that future economic benefits or service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the central government, or when the expenses are incurred.

The revaluation compared to the originally assessed performance level consists of longer useful life, greater capacity, lower cost of use or substantial improvement in the quality of output.

If the asset is depreciable, the depreciation schedule shall be reviewed since the value and useful life of the asset have changed.

The service potential of non-depreciable assets valued at their net selling price shall be extended to represent the revaluation surplus.

2.2.2 Applying this Principle

2.2.2.1 Capitalised Subsequent Expenditures

Subsequent expenditures may be capitalised if they concern safety or environmental protection (upgrades to comply with technical standards or European Directives) that may not be directly related to the asset (or to the future economic benefits from the asset), but which determine its utility and without which the asset would not be operational. The acquisition of such tangible assets is necessary for the entity to derive future economic benefits or service potential from its other assets. These expenditures are eligible for capitalisation because they enable the entity to obtain greater future economic benefits or service potential from the related assets than would have derived had the expenditures not been made.

Upgrading substandard equipment: upgrading will make the use of existing equipment consistent with the projections made prior to the new standards. If upgrading results in a substantial extension of the originally assessed useful life of the equipment, the expenditure shall be capitalised. If the expenditure is merely aimed at ensuring that the equipment fulfils its originally assessed useful life, then it shall be expensed.

2.2.2.2 Subsequent Expenditures Recognised as Expenses

When the circumstances are different from those presented above, subsequent expenditures shall be recognised as expenses. This means that expenditures on repairs and maintenance of tangible assets in order to restore or preserve the service potential that the central government could expect from the originally assessed performance level of the asset shall be recorded as expenses at the time that they are incurred.

There shall be two exceptions to this principle:

- initial recognition of the main asset:

The purchase price of an asset may include the buyer's obligation to incur subsequent expenditures to bring the asset to normal operating condition. Subsequent expenditures may be included in the initial recognition of the main asset when such expenditures are necessary to reconstitute the level of future economic benefits or service potential to be derived from the asset in its normal operating condition. These expenses shall be estimated at the date of acquisition and initial recognition of the asset.

- Subsequent to the initial recognition and after a loss in value:

If a decrease in the level of expected economic benefits or service potential leads to a loss in the value of an asset, subsequent expenditures to restore the future economic benefits or service potential to the originally assessed level may be included in the cost of the tangible asset concerned, as long as the aggregate carrying amount is not greater than the recoverable amount of the asset.

2.3 VALUATION AND ACCOUNTING TREATMENT OF RETIREMENTS AND DISPOSALS

A tangible asset shall be eliminated from the statement of financial position on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential is expected from its disposal.

2.3.1 Disposals

The accounting treatment is different depending on whether the disposal generates cash.

2.3.1.1 Disposals Generating Cash

Gains or losses arising from the retirement or disposal of a tangible asset that generates cash flows should be determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and should be recognized as revenues or expenses in the statement of financial performance.

2.3.1.2 Disposals Not Generating Cash

The treatments shall be different for cases where a counterpart to the disposal is recognised.

When a Counterpart is Recognised

This is the case when an asset is allocated or donated to a public establishment since the rights of the central government vis-à-vis the public establishment are increased by an equivalent amount.

In this case, the disposal of the asset shall lead to recognition of a financial asset. This operation is internal to the statement of financial position and has no impact on the statement of financial performance. The net carrying amount of conceded assets shall be posted to the central government's statement of financial position under a specific item entitled "countervalue of conceded assets".

When No Counterpart is Recognised

This shall be the case when ownership of an asset is transferred to a local authority under the terms of decentralisation legislation.

The disposal of the asset is recorded in the statement of financial position and has no impact on the statement of financial performance.

2.3.2 Continued Recognition of Retired Assets

Assets being held for disposal shall be recognised in this way. They shall continue to be recognised in the statement of financial position at their carrying amount at the time of retirement. An impairment test shall be carried out at each reporting date until the asset is transferred.

If an asset is retired for failing to comply with new standards, the net carrying amount shall be depreciated over the residual useful life of the asset up until the date when the new Standard comes into force. The depreciation schedule needs to be modified and no corresponding liability shall be recognised for the revaluation of the noncompliant asset.

2.3.3 Sale and Leaseback Transactions

A sale and leaseback transaction is one in which the owner of an asset (the central government in the case of this Standard) sells the asset to another entity and then leases it back. The lease payment and the selling price are usually negotiated as a package. The accounting treatment of a sale and leaseback transaction shall depend on the type of lease involved.

2.3.3.1 Transactions Resulting in Finance Leases

If the sale and leaseback transaction results in a finance lease, the excess of sale proceeds over the carrying amount shall be deferred and amortised over the lease term.

The transaction is a means whereby the lessor provides financing to the central government with the asset as security. Therefore the excess of sale proceeds over the carrying amount shall be recognised as deferred revenue and the amount is amortised over the lease term in proportion to lease payments.

2.3.3.2 Transactions Resulting in Operating Leases

If the sale and leaseback transaction results in a operating lease and if the rent and sale price payments are determined by the market value of the asset, then the operation is a normal sales transaction and any gain or loss should be recognised immediately.

If the sale price is below market value, then the loss should be recognised immediately. However, if the loss is offset by future lease payments that are below market rents, then the loss shall be deferred (prepaid expense) and amortised in proportion to the lease payments over the expected useful life of the asset.

If the sale price is higher than the market value, the excess proceeds shall be deferred and amortised over the expected useful life of the asset.

The table below summarises these provisions.

ASSET SALE FOLLOWED BY:		
A FINANCE LEASE:	AN OPERATING LEASE:	
Rewards and risks of ownership transferred to the former owner	Rewards and risks of ownership transferred to the new owner.	
Sale at a profit: deferred revenues. Recognised in subsequent years in proportion to lease payments	Sale price = market value Gain or loss recognised immediately in statement of financial performance	Sale price greater than market value: excess proceeds are deferred and amortised over the useful life of the asset
	Carrying amount is greater than market value: loss recognised immediately	Sale price is below market value: any profit or loss is recognised immediately, unless a loss is offset by below market rent in future. In this case, the loss is deferred and amortised in proportion to the lease payments over the useful life: prepaid expenses.

2.4 SUBSEQUENT VALUATION

2.4.1 Rules for Subsequent Valuation

The following rules shall apply to all assets controlled by the central government through ownership or under the terms of a finance lease. This means that assets covered by finance leases shall follow the same rules as other assets included in the same category, except that they shall be amortised over the shorter of the term of the lease and the useful life, if there is no reasonable certainty of acquisition of the asset upon the expiry of the lease.

2.4.1.1 – Assets with a Determinable Useful Life: Depreciation and Impairment Test if Evidence of Loss in Value

An asset shall be carried at its cost less accumulated depreciation and impairment losses. This valuation method shall apply to all assets except for works of art, which cannot be depreciated, and the assets (other than land) covered in the following point (see point 2.4.1.2 for special cases).

Depreciation

Business accounting rules shall apply with regard to the valuation method for the depreciable amount, conditions for adjusting depreciation schedules (useful life and depreciation method) following a substantial change in the use of the asset, the nature of the asset or impairment losses.

Impairment Losses

An impairment loss occurs when the recoverable amount of an asset is substantially lower than its net carrying amount, which no longer corresponds to the residual economic benefits or service potential if use of the asset continues.

Impairment Criteria

At each reporting date, the central government needs to conduct an assessment of each asset with a known or determinable acquisition cost to see if there is any evidence of a substantial loss in the value of the asset.

When there is evidence of a loss, an impairment test needs to be conducted. The net carrying amount of the asset shall be compared to its recoverable amount.

- If the recoverable amount is greater than the carrying amount, no impairment loss shall be recognised.
- If the recoverable amount is less than the carrying amount, the impairment loss shall be equal to the difference between the carrying amount and recoverable amount.

It should be noted that the recoverable amount is the greater of the net selling price and the value in use. Value in use shall be used when the net selling price cannot be determined. Comparison with either one of the two amounts is adequate: if either amount is greater than the carrying amount, no impairment loss shall be recognised.

The same rules used to recognise the first impairment loss on an asset must also be applied for subsequent valuations.

Evidence of Loss in Value

In assessing whether there is any evidence that an asset may be impaired, the following shall be the minimum evidence to be considered:

- external evidence:
 - during the period, an asset's market value has declined more than would be expected as a result of the passage of time or normal use;
 - significant changes in the technical, economic and legal environment with a negative impact on the use of the asset have occurred during the period or are likely to occur in the near future.
- internal evidence:
 - evidence is available of obsolescence or tangible damage to an asset that was not foreseen in the depreciation schedule;
 - major changes in the extent to which or manner in which an asset is used, especially with regard to its intended use, have occurred during the period or are likely to occur in the near future. This refers more specifically to plans to discontinue or restructure activities or plans to dispose of an asset sooner than previously intended;
 - evidence from an internal reporting system shows that the economic benefits or service potential will be lower than expected.

2.4.1.2 Assets with No Determinable Useful Life

Annual Market Value

When assets have a very long useful life and a significant residual value, as in the case of non-specialised central government buildings, values shall be determined at each reporting date. A system for periodic revaluations shall be implemented and methods for interim revaluations shall be developed.

The measurement of the service potential shall be made using a predefined method. The measurement shall be calculated on the basis of the market value of the assets.

Expenditures on assets that meet the capitalisation criteria set out in 2.2.1 shall be added to the carrying amount on 1 January.

Furthermore, at each reporting date, revaluation shall be followed by a comparison of the new and old values and recognition of a loss or a gain under the procedures set out in 2.4.2.3.

Annual Depreciated Replacement Cost

The depreciated replacement cost method shall be applied each year to assets that were initially recognised at their depreciated replacement cost (e.g. the national highway network that is not operated by concession holders) and where the repair cost for wear and tear is deducted from the reconstruction cost. This cost shall factor in the combined replacement value of the road network and new roads completed each year.

2.4.2 Accounting Treatment of Changes in Value

2.4.2.1 Accounting Treatment of the Use of Assets

Assets with a Determinable Useful Life

At each reporting date, an allocation for depreciation shall be recognised according to the depreciation schedule defined at the initial recognition date of each depreciable asset. The allocation for depreciation for the period shall be recognised as an expense.

Assets with No Determinable Useful Life

The annual measurement of use of the service potential is recognised as an expense.

2.4.2.2 Impairment Loss

If the recoverable amount of an asset still in use is less than its net carrying amount, the latter amount shall be adjusted to the recoverable amount by means of an impairment loss.

However, if the recoverable amount is not deemed to be significantly less than the net carrying amount, the latter amount shall still be the one recognised in the statement of financial position.

Recognition of an impairment loss upon initial recognition or subsequent revaluations shall modify the depreciable value of the impaired asset and thereby alter the depreciation schedule.

Any impairment loss observed shall then be recognised as an expense, except in the following cases.

2.4.2.3 Accounting Treatment of Changes in the Value of Non-Depreciated Assets (Revaluation Difference)

If the carrying amount of an asset increases or decreases after a revaluation that complies with the consistency of methods principle, the change shall be recognised in the statement of financial position under the item entitled “revaluation difference”.

However, if the decrease results from a decline in the service potential of the asset, the decrease is recognised as an expense.

2.4.2.4 Accounting Treatment of Change in the Value of Assets Valued at their Depreciated Replacement Cost

The accounting treatment for changes in the value of assets valued at depreciated replacement cost shall apply to the annual revaluation of the national highway network that is not operated by concession holders, without accounting for the opening of new roads, for which a proportionate amount is deducted from work in progress.

The increase in value shall be recognised in the statement of financial position under the “revaluation difference” item. Losses in value arising from wear and tear each year shall be recognised as impairment losses.

3. DISCLOSURES IN THE NOTES

3.1 GENERAL INFORMATION

- Valuation conventions used to determine the gross carrying amount
- Depreciation methods
- Depreciation terms and rates
- The gross carrying amount and accumulated depreciation at the start and the end of the year
- The accounting method for estimating the cost of restoring sites
- The nature and effects of change in accounting estimates having a significant impact on the current period or subsequent periods with regard to residual values, estimated dismantling, removal and site restoration costs, useful lives and depreciation methods
- The amount of expenditures capitalised for work in progress
- The carrying amount of temporarily idle tangible assets
- The gross carrying amount of fully depreciated assets still in use
- The carrying amount of retired tangible assets being held for disposal
- The complete or partial transfer of an asset (change of attribution)

3.2 DISCLOSURES ABOUT TRANSACTIONS THAT ARE SPECIFIC TO THE CENTRAL GOVERNMENT

Amount of commitments for the acquisition of tangible assets. This should include the net carrying amount of finance leases in each asset category on the reporting date.

Finance Leases

- The notes should show the total minimum lease payments at the reporting date and their present value at less than one year, at one to five years and at more than five years.
- The notes should provide a comparison of the total of minimum lease payments at the reporting date and their present value.
- The notes should provide a general description of the main lease clauses (renewal options, purchase options, index linking, etc.).

Other Disclosures

- More generally, information about the assets that the central government controls without owning.
- A statement listing the assets owned by the central government and valued arbitrarily (list of historical monuments).
- The notes shall include a list of concession contracts, classified into the main categories.

3.3 TABLES OF TANGIBLE ASSETS BY CATEGORY

The notes shall contain tables showing the events explaining the changes in gross and net values of each category of assets: acquisitions, disposals, revaluations, impairment losses, depreciation and similar events.

STANDARD 6 - TANGIBLE ASSETS

EXAMPLES

I – SCOPE

I.1 – Scope of the Standard in View of the Control Criterion

The assets controlled by public establishments, local and regional authorities or concession holders that are consequently not recognised in the central government statement of financial position include:

- *assets allocated to, assigned to or under the management of public establishments in compliance with the central government property code rules;*
- *buildings of local educational public establishments (schools and lycées) covered by a transfer of powers under the terms of the Act of 22 July 1983 (except for establishments on the list set out by Order 85-349 for the Ministries of Agriculture and Education);*
- *conceded motorways, national highways transferred to the Départements and non-national roads;*
- *port facilities managed by port authorities or by local and regional authorities (communes for yacht harbours, Départements for commercial and fishing ports under the terms of the Act of 22 July 1983, Regions for national ports under the terms of Article 104 of the Act of 27 February 2002); transfer of the port authorities of Bastia and Ajaccio to the Corsican Territorial Authority by the Order of 22 October 2003;*
- *inland waterways managed by the “Voies navigables de France” public establishment;*
- *airport facilities managed by the Chambers of Commerce and Industry and by the Aéroports de Paris public establishment, along with the four airports where ownership and management have been transferred to the Corsican Territorial Authority.*
- *waterways, canals, lakes and watercourses that are the property of local and regional authorities. This property was constituted following the transfer of central government waterway property (to the Regions primarily) under the terms of Article 56 of the Act of 30 July 2003 on preventing technological and natural risks and repairing damage.*

The parameters of control described above may change as Parliament passes new laws on decentralisation.

I.2 – Finance Leases and Legal Provisions Concerning Land and Buildings

For a lease to be qualified as a finance lease, it must stipulate that the leased asset falls into one of three types of situations presented below:

- *ownership of the asset:*
 - *at the expiry of the lease, ownership of the asset shall be transferred to the central government.*
 - *the central government’s exercise of its purchase option at the expiry of the lease must carry a price that is so low compared to the market value that the exercise of the option appears to be reasonably certain from the inception of the lease. Title to the asset may or may not eventually be transferred.*
 - *the specific nature of the asset means that it can be used exclusively by the central government without requiring major modifications.*
 - *the central government is able to renew the lease on terms that are more favourable than the prevailing market terms.*

- *holding period:*
 - *the lease term covers most of the useful life of the asset, even when ownership is not transferred.*
- *transfer of risks and rewards to lessee:*
 - *at the inception of the lease, the present value of the payments is close to the fair value of the leased asset.*
 - *if the central government rescinds the lease, the resulting losses for the lessor shall be borne by the central government.*
 - *gains and losses following changes in the fair value of the residual value shall be recognised by the central government.*

These rules apply to assets that are explicitly covered by finance leases, along with assets where the legal arrangements for making the assets available, particularly for the purpose of property development, transfer all of the risks and rewards associated with ownership to the central government.

An analysis of existing legal arrangements shows that some legal structures could be deemed to be finance leases in substance, even though their form is that of operating leases. This is true of purchase options connected with long-term leases involving private property, leases on buildings built by private operators that are authorised to occupy government property on a temporary basis.

This analysis is especially important in circumstances where the government may enter finance lease arrangements for buildings.

Article 3 of the Internal Security Act of 29 August 2002 provides an illustration of this. Under the terms of the Article, the legal rules on property transactions have been made more flexible to promote financing of private sector projects involving government property. The Article facilitates private sector contracting and makes it more secure by enabling the central government to sign a lease with an entity holding a temporary authorisation to occupy public property in which the clauses dealing with the buildings to be built for the needs of the justice system and law enforcement agencies include a purchase option for the central government and by making it possible to finance construction projects through finance leases. Article 6 will extend the scope of Article 3 to other needs on cooperation contracts between private sector and public-sector entities set out in the bill on simplification and codification of legislation.

II – VALUATION METHODS

II.1 – Initial Valuation

Special rules for asset valuation for the initial central government statement of financial position with regard to assets with no directly observable market value

Roads:

The value of the national road system is estimated on the basis of valuation of the reconstruction cost of the road system and valuation of the cost of repairing wear and tear of the infrastructures making up the system.

Reconstruction cost is based on kilometric ratios¹⁴ multiplied by the length of the roads concerned¹⁵ with distinctions between:

- *urban and interurban roads (town limits);*
- *the terrain (classification of départements into three categories);*

¹⁴ *The ratios are based on the preliminary plans examined by the Road and Motorway Technical Research Unit (SETRA) and the Regional Public Works Directorate in Ile de France.*

¹⁵ *The length of road is derived from the road system information database run by SETRA.*

- road types (five distinct profiles).

Analyses are available for most of the elements making up the road system and the associated structures (roadways, tunnels, special structures, etc.). These analyses can be used to estimate the repair cost. They include quality indicators from the national road network quality survey (IQRN), the national road infrastructure quality survey (IQOA) and the assessment report of the general inspectorate task force on tunnels. These costs are estimated periodically and updated each year.

II.2 – Subsequent Valuations

Special procedure for the annual valuation of non-specialised land and buildings at market value:

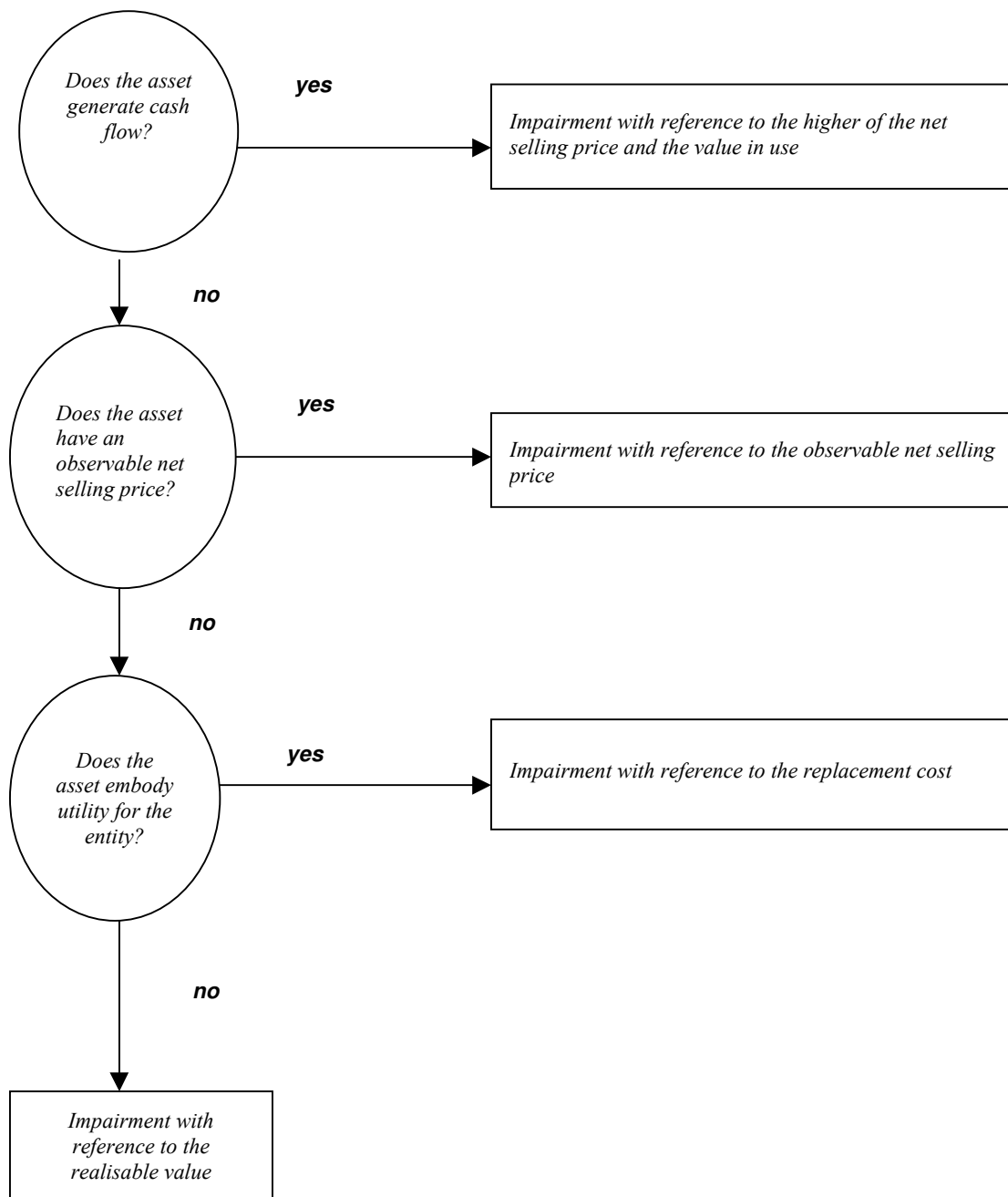
Each year market studies in each Département, or in smaller areas in major urban centres, provide price trend coefficients. They are combined with the maintenance coefficient trend indicator and applied to the assets in each Département, other than the 10% share of assets covered by a specific valuation relating to:

- *assets that have undergone substantial change as a result of capitalised work;*
- *buildings that have been valued for disposal purposes;*
- *a selection of buildings to bring the sample up to the 10% quota of assets and consider the various price trends that may have affected a group of assets (neighbourhood renewal project).*

These indicators are grouped in scales that are revised every five years to account for structural change in the markets for buildings and land (creation of new zones and new uses).

II.3 – Impairment Losses

General Circumstances:



II.4 – Summary Table

<i>INITIAL VALUATION</i>				<i>SUBSEQUENT VALUATION</i>			
<i>Initial statement of financial position</i>				<i>General Case</i>		<i>Special Cases</i>	
General accrual accounting rules	Special rules			Depreciation	Annual Market Value Acquisition cost	Symbolic value or historical cost or reproduction cost	Depreciated replacement cost
Acquisition cost (known or reconstituted)	Cost not known or not meaningful						
	Directly observable market value	No directly observable market value					
	Market value or market value with reconversion elements	Identifiable and measurable service potential	Historical or cultural service potential				
Depreciated replacement cost		Symbolic value	Reproduction cost				

EXAMPLES:

Civilian equipment (offices, furniture, computers) military equipment	Non-specialised buildings, civilian and military land Adaptable buildings (prisons, barracks)	Roads	Obelisque, historical sites Works of art	Civilian and military equipment	Non-specialised buildings and land Works of art	Historical monuments	Infrastructures
--	--	--------------	--	--	---	-----------------------------	------------------------

STANDARD 7

FINANCIAL ASSETS

STANDARD 7 – FINANCIAL ASSETS

INTRODUCTION

This Standard deals with the central government's equity investments, the claims arising from these investments and loans and advances that the central government makes to other entities (all entities incorporated as separate entities from the central government).

I – LOANS AND ADVANCES

The provisions relating to loans and advances are taken from the French General Chart of Accounts. The main stipulation of the Standard is that claims shall be recognised when they arise, before actual cash movements take place, and that the valuation rules for this type of asset shall be applied, meaning that they shall initially be recognised at the nominal redemption value and an impairment loss shall be recognised at the reporting date if the value in use of the asset is lower than the initial value.

The specific nature of the central government's activities does not warrant a departure from business accounting recognition and valuation principles with regard to loans and advances.

II – EQUITY INVESTMENTS AND RELATED CLAIMS

The related claims are mainly loans and advances that the central government has made to entities that meet the definition of equity investments. In keeping with the stipulations of the French General Chart of Accounts, these claims are not recorded under other loans and advances. They are matched to the corresponding central government equity investments.

II.1 – Entities to be Shown on the Central Government Statement of Financial Position

Equity investments are to be understood in the broad sense of the term, whereas the term is most commonly used to refer to holdings of equity securities.

Yet, many entities are linked to the central government, even though there are no equity securities issued to represent this link. In most cases, the entities concerned have no share capital per se to be partially or fully owned by the central government, since they are not incorporated as companies.

The entities to which the central government holds rights are incorporated as separate entities from the central government. Entities that are not incorporated as separate entities from the central government do not meet the definition of equity investments, even though their accounting systems may be more or less separate from the central government system. The accounting of these entities is integrated directly in to the central government accounting system. This provision applies to specific budgets in particular (in a departure from this general principle, the specific budget of the Order of Liberation, which is incorporated as a separate entity, is included) and to the special accounts that are presented separately from the general budget.

The entities related to the central government take many different legal forms: companies, public establishments of all kinds (administrative, industrial and commercial, scientific and technological, cultural or professional), public interest groups, economic interest groups, non-profit associations.

The usual notion of control, as used in the Standard for the primary approach to classification of entities, seems to be suitable, but it is inadequate with regard to the issues arising from the various situations found. It would be helpful to have a finer classification of entities than the usual distinction between controlled entities and uncontrolled entities, which require separate valuation methods.

The issue of classification of these entities into distinct categories arises from the need for specific disclosures in the central government's statement of financial position and in the notes. These disclosures relate to the purposes for which the central government holds the equity investments and the contribution that these investments make to the central government in the performance of its tasks. This leads to the distinction between the central government's relationship with "central government policy operators" (a category defined in the Standard) and its relationships with other controlled entities.

Even though this Standard, like all the other Standards in this compendium, covers the "separate financial statements" of the central government, the proposed classification of equity investments lays the groundwork for future consolidation of the central government's financial statements with those of the entities under its control.

The definition of equity investments in the Standard includes the specific notion of long-term links between the central government and the entities recognised as equity investments. When equity securities are acquired for quick resale, there is no such long-term link. In such cases, the statement of financial position should record such securities in a separate category from equity investments ("other financial assets", for example). Such cases are the exception rather than the rule.

II.1.1 – Controlled Entities

The definition of control used in the standard complies with the definition given in IPSAS 6 ("Consolidated Financial Statements and Accounting for Controlled Entities), which IFAC has drawn up for government entities. IPSAS 6 derives much of its inspiration from IAS 27 ("Consolidated Financial Statements and Accounting for Investments in Subsidiaries").

IPSAS 6, like all of the other IPSAS, is consistent with consolidation of financial statements. With this in mind, its definition and criteria for applying the notion of control can be used for the central government, even if the current Standard does not mention consolidation. The purpose of the distinction between controlled entities and uncontrolled entities is:

- *to propose different valuation methods for these two categories of equity investments;*
- *to lay the groundwork for future consolidation of the central government's financial statements with those of the controlled entities.*

However, application of the definition and the control criteria does not seem to be enough to explain the relationships between the central government and the entities that it controls. Such entities can be classified using other criteria, particularly with regard to their purpose. Simply put, a distinction can be made between controlled entities that can be qualified as central government policy operators and those that do not fit such a definition.

II.1.1.1 - Central Government Policy Operators Definitions

The objectives of the controlled entity are specifically assessed with regard to the closeness of the financial and economic ties between the central government and the entities concerned. The legal status of the entities is not the only criterion to be considered in determining the categories of equity investments.

The closeness of the financial ties between the central government and an entity should be measured on the basis of the procedure for financing the entity's activities. If the financing comes from the central government (in the form of subsidies, for example) the closeness of the tie is obviously greater than if the entity finances its activities on its own from its own resources.

The closeness of the economic ties depends on the nature of the entity's activities. If its activities are part of a task that is the central government's responsibility, or a task that the central government could perform itself, the closeness of the tie is obviously greater than if the entity's activities are specific to it and it is managed with some independence.

Some entities are so closely tied to the central government that their only distinguishing characteristic is their legal status and their incorporation as a separate entity from the central government. Such entities were created for various reasons to do, for example, with the economic and political circumstances of the time (the need to create a separate entity from the central government was felt at that point in history), even though the entities concerned have tasks that are the responsibility of the central government, and that are financed, regulated and closely supervised by the central government.

It seems critical for the financial statements to distinguish these entities deemed to be close to the central government's core activities, which are called central government policy operators, from the other entities controlled by the central government. There are several reasons for this:

- *in the future, these "close" entities are bound to be the first consolidated in the central government financial statements, when the central government presents consolidated financial statements. Even if consolidation is bound to encompass other controlled entities that are not central government policy operators, the presentation of "central government + operators" consolidated financial statements has special meaning, since it would identify the whole non-market sector in specific financial statements.*
- *the many operators with very close ties are the preferred "instruments" of central government action. Identifying them in the financial statements promotes a clearer understanding of the way in which the central government performs its tasks.*
- *finally, the new budget classification in the Constitutional bylaw, creates the category of subsidies for public service expenses. At this stage in the discussions, this category is intended to cover subsidies paid to central government policy operators and bring the information contained in budget statements into line with that contained in the financial statements. This will facilitate consolidation of the financial statements in the future by eliminating these flows from the restatements carried out for consolidation.*

II.1.1.2 - Central Government Policy Operators: Criteria

Paradoxically, manipulating the principle for defining the central government policy makers seems to be intuitive, but determining the criteria for classifying entities in this category is less so.

However, the following criteria can be used to define a list of central government policy operators:

- *belonging to the non-market sector (in the system of national accounts, this means that any revenues derived from the entity's activities cover less than 50% of the costs incurred, with the rest being financed primarily through subsidies);*
- *activity under the strict control of the central government (setting tasks and targets for the entity, allocation of resources with little or no negotiation);*
- *entity under central government control (see above).*

Central government policy operators meet all three criteria.

II.1.1.3 – Controlled Entities other than Central Government Policy Operators

Controlled entities other than central government policy operators are mainly companies and industrial and commercial public establishments responsible for public service tasks. They have more autonomy than central government policy operators for determining their strategy, setting their targets and allocating their resources.

II.1.2 – Uncontrolled Entities

The category of uncontrolled entities covers the entities in which the central government holds a minority interest that does not give it control over the entity.

This category also covers entities that meet the control criteria, but where the central government's control is severely restricted by explicit provisions, under the terms of legislation, for example.

II.2 – VALUATION OF EQUITY INVESTMENTS

II.2.1 – Initial Valuation

The initial valuation of equity investments is at their acquisition cost. The Standard stipulates that “the acquisition cost of equity investments shall be equal to the price at which they were acquired and the initial contributions made by the central government. The acquisition cost shall include such intermediation costs as commissions, fees and bank charges, if they are directly attributable to the transaction.”

This provision is a departure from the French General Chart of Accounts, which excludes such costs from the acquisition cost of the assets concerned and considers them to be expenses to be deferred and amortised over more than one period. The Standard calls for such costs to be included in the acquisition cost, if they are directly attributable to the transaction. This is the method preferred by IAS 22 (and all of the IAS) and by the French Accounting Regulation Committee Regulation 99-02 on consolidated financial statements.

II.2.2 – Choosing a Method for Subsequent Valuations

In business accounting, equity investments in subsidiaries are generally valued on the basis of the recoverable amount.

The French Accounting Regulation Committee Regulation on depreciation and impairment of assets (Regulation 2002-10 of 12 December 2002) stipulates that the “recoverable amount is the greater of the net selling price or the value in use, subject to the provisions of Article 332-3 on equity instruments and the provisions of Article 332-4 on securities valued using the equity method.”

Article 332-3 of the French General Chart of Accounts stipulates that “at any other date than the date of initial recognition, listed and unlisted equity instruments shall be valued at their value in use, embodying the amount the entity would be willing to pay to acquire this investment if it had to acquire it.

As long as the changes in value are not the result of accidental circumstances, the estimate may factor in the following elements: profitability and prospects for profitability, equity, likelihood of realising the value, business conditions, average stock prices in previous month and the basis for assessment used in the original transaction.”

This seems to be a difficult notion to apply to many of the central government's equity investments, since the utility of some of them can never be measured in purely financial terms. Social, environmental, cultural and educational utility, or the utility of the research conducted by some operators are not easy to measure and record in the financial statements as expected cash flows or even as service potential.

On the other hand, the French Plan comptable (Article 332-4) offers an alternative valuation method based on the value of the share of equity that a parent company holds in its subsidiaries. The equity method for valuation seems to be more appropriate for the central government's equity investments, in view of the valuation problems that arise with the other methods. The equity method for valuation makes it possible to track changes in the overall value of the investment, which is not the same as the acquisition cost, while avoiding the pitfalls of tracking a hypothetical market value for central government investments in controlled entities, when no such value exists in many cases.

The Standard calls for investments in controlled entities to be valued using the equity method. Meanwhile, investments in uncontrolled entities, which is the category that includes minority interests, are to be valued at their acquisition cost. This is because such investments are not made for the same purposes as investments in controlled entities.

In the case of controlled entities that are not central government policy operators, the reference in the Standard to the share of consolidated shareholders' equity (excluding minority interests) provides a more informative representation of the value of the investment than the recording of the controlled entities' own equity, especially when they are indirectly owned.

II.2.3 – Exceptions to the Application of the Equity Method for Valuation

General remark: it should be noted that the equity method for valuation and the equity method for consolidation are two separate concepts:

- *The equity method for valuation is used for separate financial statements, whereas the equity method for consolidation is used in consolidated financial statements;*
- *Under business accounting rules, the equity method for valuation (see above) concerns only fully controlled entities, whereas the equity method of consolidation concerns only entities in which the investor exercises significant influence.*

In business accounting, (Article L. 232-5 of the French Commercial Code and Article 332-4 of the French Plan comptable), the equity method for valuation can only be used subject to the following conditions:

- *only by companies presenting consolidated financial statements,*
- *only for fully controlled subsidiaries,*
- *and subject to making the restatements stipulated by the consolidation rules (before income distribution and elimination of intercompany transfers).*

There is an exception to these rules in the case of the central government. To wit:

- *The central government does not draw up consolidated financial statements.*
- *All of the entities under full or joint central government control are valued using the equity method.*
- *As a general rule, there are no plans to make the restatements stipulated by the consolidation rules¹³. On the other hand, some of the restatements made by controlled entities could be examined and some special restatements could be made as appropriate.*

II.2.4 – Accounting Treatment of Capital Grants

Business accounting rules provide different definitions of equity to be accounted for:

- *in the consolidated financial statements of the entity being valued, capital grants are not counted as equity (according to IAS 20), instead they are counted as prepaid income;*
- *in the separate financial statements, on the other hand, capital grants are added to equity (Article 434-1 of the French Plan comptable); in this case they are credited to the revaluation reserve in the central government's statement of financial position, since they are part of the central government's share in the equity of the entity.*

If the subsidy is paid by the central government, then the payment always gives rise to the recognition of an expense for the central government and as many of the subsidies are netted off in aggregate.

The method used in previous central government financial statements (before 2003) credited the capital grants received by non-market sector entities to their equity. On the other hand, capital grants were not credited to the equity in market sector entities' separate or consolidated financial statements, since the approach used for consolidated financial statements was preferred.

¹³ *Since the central government does not yet prepare consolidated financial statements, there is no way of knowing which consolidation rules will apply to it, even though it is clear that they will be inspired by the rules applying to businesses, with the appropriate adjustments for the specific features of the central government.*

Plans call for the Standard to stipulate this method, with one adaptation: the dividing line is no longer to be drawn between non-market and market sector entities, but between central government policy operators and other controlled entities.

The following fundamental arguments can be made in favour of this method:

- *Much of the operators' financing comes from subsidies, so it seems only logical that the equity method for valuation should count capital grants, which increase their equity.*
 - *Operators are to be reported in the future consolidated central government financial statements using the full consolidation method.*
 - *Furthermore, it is assumed that capital grants are used to acquire fixed assets, which means that the assets that the operators acquire using capital grants are therefore financed by the central government.*
 - *This is why it has been suggested that the priority should be on using the consolidated financial statements drawn up by the operators, subject to the condition that the capital grants that they receive are credited to equity. Failing that, if the separate financial statements are used, no restatement is required since the capital grants are, by definition, credited to equity.*
- *Other controlled entities work mainly in the market sector and many of them publish consolidated financial statements. In most cases, the value of the shares of equity in these entities is less affected by the choice with regard to counting capital grants as equity, since these entities finance most of their activity by selling their goods and services and not through subsidies. Therefore, the proposal is to continue recognising consolidated equity for entities that publish consolidated financial statements. If they do not publish consolidated financial statements, the equity amount recognised in the separate financial statements will be used, less capital grants in this case to ensure uniform valuation of this category of entities.*

II.2.5 – Initial Recognition when the Standard is First Applied

The French Plan comptable (Article 332-4) stipulates that, for equity investments valued using the equity method when drawing up the financial statements for the first period in which the Standard is applied, “the net carrying amount of the securities in the starting statement of financial position shall be taken as the acquisition price”. The same rule shall apply for drawing up the financial statements for the first period in which this Standard is applied.

II.2.6 – Lack of Financial Statements for the Period

There may be a one-year lag between the financial statements used to value equity investments in the central government financial statements and the period concerned for the central government. The lag shall be examined for each entity, starting with the most important entities. In principle, valuation using the equity method applies to the financial statements for the corresponding year. When this is technically impossible, the situation shall be explained on a case-by-case basis in the central government financial statements.

III – DISCLOSURES IN THE NOTES

Plans call for the notes to the financial statements to contain information that clarifies the information contained in the statement of financial position.

More specifically, the notes shall contain a breakdown of the revaluation reserve by equity investment category (operators, other controlled entities) and by sub-category (non-financial operators, financial operators, defeasance vehicles) to provide detailed measurement of changes in the value of central government equity investments over time. This refers to the revaluation reserve amount, not annual change in this amount.

Plans also call for:

- *a list of important equity investments, along with the percentage owned. The importance of the investment will be gauged by the size of the central government's stake in financial terms, as well as in terms of activity (operators) and with regard to the understandability of the notes, since making sense of a list of several hundred investments would be a tedious task.*
- *a table of changes in equity investments: disposals, acquisitions and mergers.*
- *individual identification of investments in entities with negative equity. This applies primarily to investments in defeasance structures and in the social security refinancing structure (CADES).*

IV – POSITION WITH REGARD TO OTHER ACCOUNTING STANDARDS

In conclusion, the Standard is broadly based on business accounting rules.

The accounting treatment of loans and advances is consistent with the provisions of the French Plan comptable.

The definitions and criteria for assessing control with regard to equity investments refer to IPSAS 6¹⁴, which is itself very similar to IAS 27. The notion of control for consolidation purposes is defined in the standards dealing with consolidated financial statements.

The section on the initial valuation is in line with the French Plan comptable (except for the definition of acquisition cost, see below).

The provisions on equity investments valued at acquisition cost are also consistent with the French Plan comptable. The provisions comply with the French Accounting Regulation Committee Regulation 2002-10 of 12 December 2002 on depreciation and impairment of assets.

The definition of acquisition cost, which includes certain transaction costs (fees and commissions) and bank charges, is consistent with the provisions of IAS 22. Generally speaking, international standards call for a number of costs related to acquisitions of assets to be included in the initial valuation.

The section on the equity method for valuation is parallel to the corresponding provisions in the French Plan comptable (Article 332-4), except for the divergences identified in II.2.3 above on the conditions for applying the method.

¹⁴ *The International Public Sector Accounting Standards (IPSAS) are drawn up by the by the Public Sector Committee of the IFAC (International Federation of Accountants).*

STANDARD 7 – FINANCIAL ASSETS

STANDARDS

1. SCOPE

1.1 SPECIFIC DEFINITIONS

This Standard shall apply to the central government's financial assets. These assets are the central government's equity investments, which may or may not be represented by securities, claims related to these investments and loans and advances granted by the central government.

In this standard, the following terms shall have the meanings given below:

Central government equity investments

Central government equity investments are the rights that the central government holds in other entities, which may or may not be represented by equity instruments and which create long-term links with the other entities. The rights may stem from:

- ownership of equity shares in the entities concerned or,
- the legal status of the entities concerned, or
- central government control (as defined below) over these entities.

Entities covered by the Standard

The entities in which the central government holds an interest are incorporated as separate entities from the central government.

Loans and advances granted by the central government

Loans and advances are funds paid to other entities under contract provisions by which the central government undertakes to transfer the use of means of payment to natural and legal persons for a certain period.

Loans are granted for a term of more than 4 years and **advances** are granted for a term of 2 years, which can be renewed once with explicit authorisation.

In this compendium, the provisions dealing explicitly with loans and advances do not concern claims related to equity investments.

1.2 CATEGORIES OF EQUITY INVESTMENTS COVERED BY THE STANDARD

Equity investments are the rights in entities where long-term ownership of such rights is deemed to be helpful for the central government's activities, because it provides control over the entities concerned or significant influence over their activities.

Once the rights in a given entity have been initially recognised as a central government equity investment, their classification shall not change, as long as the central government owns the rights, regardless of subsequent changes in the central government's share of the entity's equity.

Equity investments fall into two categories:

- equity investments in entities controlled by the central government;
- equity investments in entities that are not controlled by the central government.

1.2.1 Notion of Control

In this Standard, control is defined as the central government's power to govern the operating and financial activities of another entity so as to benefit from and/or bear the risks of such activities.

Control shall be determined using the following procedures:

- the nature of the relationship between the central government and the entity shall be examined in light of the "general criteria for determining control" (see 1.2.1.1 below), which may lead to the classification of the entity in one or the other of the two categories;
- if these provisions are not adequate for determining control or lack of control, then the "control indicators" (1.2.1.2) shall be used.

1.2.1.1 General Criteria for Determining Control

The central government shall be presumed to control another entity if at least one of the "power criteria" and at least one of the "benefits and risk criteria" presented below are deemed to be fulfilled, unless there is another element that unequivocally establishes the existence of central government control over the entity.

a) Power Criteria:

- The central government directly or indirectly owns the majority of the voting rights in the decision-making body (general meeting or other such body) of the entity;
- the central government has the power, enshrined in specific legal provisions or simply under the general rules in effect, to appoint or remove the majority of the members of the entity's governing body (board of directors or similar body);
- the central government has the power to cast a majority of the votes at the meetings of the entity's governing body; the central government shall be presumed to have such control when it directly or indirectly holds more than 40% of the voting rights and no other person directly or indirectly holds a greater percentage of the voting rights;
- the central government controls the entity by virtue of explicit provisions.

b) Benefit and Risk Criteria:

- the central government has the power to dissolve the entity and obtain a significant level of the residual economic benefits or bear significant obligations;
- the central government has the power to extract distributions of assets (e.g. monetary assets) from the entity, and/or may be liable for certain obligations of the entity.

1.2.1.2 Control Indicators

When the general criteria listed above are not adequate to determine whether the entity in question is controlled by the central government, the following elements, taken individually or collectively, shall be indicative of the existence of control:

a) Power Indicators:

- the central government has the power to veto the operating and capital budgets of the entity;
- the central government has the power to veto, overrule or modify decisions made by the entity's governing body;

- the central government has the power to approve the hiring, reassignment and removal of the entity's key personnel;
- the entity's mandate is established and limited by legislation;
- the central government holds a special "golden" share that confers certain rights, such as a veto on changes in capital, asset disposals, or other such rights.

b) Benefit and Risk Elements:

- the central government holds direct or indirect title to the net assets (or liabilities) of the entity with an ongoing right to access these;
- the central government has direct or indirect rights to a significant level of the net assets (or liabilities) of the entity in the event of a liquidation;
- the central government is able to direct the entity to cooperate with it in achieving its own objectives;
- the central government is exposed to the entity's residual liabilities.

1.2.1.3 Restrictions on Control

Application of the above criteria and indicators may not be adequate to determine the reality of the central government's control over the entities in question.

In some cases the central government's control is restricted by severe provisions that prevent it from benefiting from the entity's activities. These provisions may be external (foreign) or internal (legislation that requires the central government to waive any benefits that it could obtain from the entity's activities).

Such exceptional circumstances warrant a thorough examination of the mandate and activities of the entities concerned by such provisions to determine whether control is severely restricted or not.

1.2.2 Controlled Entities

Controlled entities shall include directly and indirectly controlled entities. Indirect control shall be determined by having the entities concerned apply the rules on consolidation¹⁵. The controlled entities category contains two sub-categories:

- central government policy operators;
- controlled entities other than central government policy operators.

When the central government has a direct minority interest in an entity that is owned by another entity under the direct control of the central government, central government control shall be determined by considering the combined direct and indirect ownership.

1.2.2.1 Central Government Policy Operators

Central government policy operators are active in the non-market sphere. Some of them manage intervention programmes. These entities are controlled by the central government and carry out public service tasks under conditions that have been rigorously set by the central government.

The following criteria are used to classify a controlled entity in the category of central government policy operators:

- non-market activity financed mostly by the central government;
- tasks and targets set by the central government;

¹⁵ Article 136 of Act 2002-706 of 1 August 2003 on financial security extends the requirement to present consolidated financial statements to central government public establishments subject to government accounting rules starting on 1 January 2006.

- activities closely supervised by the central government.

The legal status of central government policy operators varies: they may be public establishments, associations, public interest groupings or any other form of entity.

Central government policy operators do not choose the direction of their actions. They rarely determine their own targets or intervention procedures, which are often set by regulations. Their autonomy is often limited to implementing the resources allocated to them.

1.2.2.2 Controlled Entities other than Central Government Policy Operators

Other controlled entities meet the control definition and criteria, but cannot be classified in the category of central government policy operators.

1.2.3 Uncontrolled Entities

Entities that do not fulfil the definition and criteria for controlled entities shall be classified in the category of uncontrolled entities.

Entities where the central government's control is severely restricted shall also be classified in this category of equity investments.

1.3 RELATED CLAIMS

Claims (dividends, interest, income shares) shall be matched to the equity investments that give rise to them. The loans and advances that the central government grants to controlled and uncontrolled entities in which it has investments shall also be matched to the equity investments concerned.

2. ACCOUNTING TREATMENT

2.1 EQUITY INVESTMENTS

Equity investments shall be recognised as assets in the central government's statement of financial position when the corresponding rights are transferred to the central government.

2.2 LOANS AND ADVANCES

Loans and advances that the central government grants to entities in which it has no investment, shall be recognised as central government assets.

Loans and advances shall be recorded in the financial statements for the period in which the corresponding rights arise.

Advances where repayment is directly subject to fulfilment of conditions duly identified upon initial recognition shall be recorded as central government assets and explained in the notes to the financial statements.

3. VALUATION

3.1 EQUITY INVESTMENTS

3.1.1 Initial Valuation

When equity investments are first recognised in the central government's financial statements, they shall be valued at their acquisition cost.

The acquisition cost of equity investments shall be equal to the price at which they were acquired or the initial contributions from the central government. The acquisition cost shall include such costs as commissions, fees and bank charges, if they are directly attributable to the transaction.

For equity investments valued using the equity method when drawing up the financial statements for the first period in which this Standard is applied, the net carrying amount of the securities in the starting statement of financial position shall be taken as the acquisition price.

3.1.2 Subsequent Valuation

The central government shall value the carrying amount of its equity investments as follows:

- equity investments in the controlled entities category shall be valued using the equity method;
- equity investments in the uncontrolled entities category shall be valued at acquisition cost.

3.1.2.1 Equity Investments Valued Using the Equity Method

The equity method value of an equity investment shall be equal to the central government's directly owned share in the equity of the entity concerned. The equity to be considered shall be the consolidated equity less minority interests. Equity shall be taken into consideration subject to the following conditions:

- the equity of central government policy operators shall include any capital grants received;
- the equity of other controlled entities shall exclude capital grants.

If the aggregate equity method value of equity investments is less than their aggregate initial value, an aggregate impairment loss shall be recognised. The impairment loss recognised in the financial statements for the period shall give rise to an impairment allowance recognised as an expense for the period.

If the aggregate equity method value is negative, a provision for aggregate risks shall be set aside to cover the negative amount and an aggregate impairment loss equal to the initial aggregate value shall also be recognised. The provision recognised in the financial statements for the period shall give rise to an allocation to provisions that shall be recognised as an expense for the period.

3.1.2.2 Equity Investments Valued at their Acquisition cost

An impairment test shall be performed at the end of the period, if there is evidence that the value of an asset has declined significantly. The carrying amount of the equity investment shall be compared to its recoverable amount.

If the recoverable amount of the equity investment is deemed to be significantly lower than its carrying amount, an impairment loss shall be recognised.

The carrying amount shall be equal to the initial amount, less any impairment losses. The recoverable amount shall be assessed according to the utility of the asset for the central government. For central government equity investments, the equity method value of equity investments is used instead of the recoverable amount.

3.1.3 Valuation of Equity Investment Disposals

When equity investments are derecognised, their initial value is eliminated from the assets recognised in the central government's statement of financial position.

3.2 LOANS AND ADVANCES

Loans and advances shall initially be recognised at their nominal repayment amount.

The carrying amount of loans and advances shall be equal to their recoverable amount, which is an estimated amount assessed with regard to the utility of the claim for the central government.

An impairment loss shall be recognised when a likely loss arises, meaning when the carrying amount is lower than the nominal repayment amount.

Loans and advances where the nominal repayment amount has declined shall give rise to:

- recognition of an expense if the decline is certain and irrevocable,
- recognition of an impairment loss if the decline is reversible.

Loans and advances where the nominal repayment amount has increased shall give rise to recognition of revenue if the increase is certain and permanent. If the increase is reversible, the claim shall continue to be carried at its initial value.

Accrued interest shall be allocated to the principal amount of the central government's claim.

4. DISCLOSURES IN THE NOTES

The notes to the financial statements shall contain the following summary tables:

Equity Investments:

- List of significant equity investments in directly controlled entities, with the percentage of equity owned;
- Table of changes in equity investments (disposals and acquisitions) over the period;
- Breakdown of the revaluation reserve by equity investment category (using the classifications presented above);
- Table of equity investments in entities with negative equity.

Loans and Advances:

- Amount and nature of advances where repayment is subject to conditions.

STANDARD 7 – FINANCIAL ASSETS**EXAMPLE*****PARTIAL LIST OF CENTRAL GOVERNMENT POLICY OPERATORS***

Central government policy operators take different legal forms (associations, public establishments, public interest groupings, etc.) and conduct their activities in a wide variety of sectors. The following is a partial list that gives an indication of the wide variety of entities in this category.

The following entities may be classified as central government policy operators:

ABES (Agence bibliographique de l'enseignement supérieur)

Académie de France à Rome

AEFE (Agence pour l'enseignement français à l'étranger)

BNF (Bibliothèque nationale de France)

Institut national de recherches archéologiques préventives

Ecole du Louvre

Ecole des Mines

INALCO (Institut national des langues et civilisations orientales)

IUFM (Instituts universitaires de formation des maîtres)

ONISEP (Office national d'information sur les enseignements et les professions)

Comédie française

Musées nationaux

Opéras nationaux

Théâtres nationaux

UBIFRANCE (Agence française pour le développement international des entreprises)

ADETEF (Association pour le développement des échanges en technologie économique et financière)

AFII (Agence française des investissements internationaux)

ADEME (Agence de l'environnement et de la maîtrise de l'énergie)

Agences de l'eau

ANAH (Agence nationale pour l'amélioration de l'habitat)

Haras nationaux

Parcs nationaux

AFIT (Agence française de l'ingénierie touristique)

AFPA (Association nationale pour la formation professionnelle des adultes)

ANPE (Agence nationale pour l'emploi)

ANCV (Agence nationale pour les chèques-vacances)

ARH (Agences régionales d'hospitalisation)

AFSSA (Agence française de sécurité sanitaire des aliments)

AFSSPS (Agence française de sécurité sanitaire des produits de santé)

ANAES (Agence nationale d'accréditation et d'évaluation en santé)

EFS (Etablissement français du sang)

ANDRA (Agence nationale pour la gestion des déchets radioactifs)

ANFR (Agence nationale des fréquences)

CNASEA (Centre national pour l'aménagement des structures des exploitations agricoles)

Conseils départementaux d'accès au droit

IGN (Institut géographique national)

IHEDN (Institut des hautes études en défense nationale)

INA (Institut national de l'audiovisuel)

INED (Institut national d'études démographiques)

Météo-France

OFPRA (Office français de protection des réfugiés et apatrides)

STANDARD 8

INVENTORIES

STANDARD 8 - INVENTORIES

INTRODUCTION

This Standard deals with central government inventories. It deals with the issues of definition and scope first and then with the valuation methods to be used.

I – DEFINITION OF INVENTORIES AND SCOPE OF THE STANDARD

Inventories encompass goods purchased and held for resale including, for example, merchandise, land and other property purchased for resale. Inventories also encompass finished goods or work in progress produced by the central government. This includes materials and supplies awaiting use in the production process and goods purchased or produced by the central government, which are for distribution to other parties for no charge or for a nominal charge.

Central government inventories may include:

- ammunition,*
- consumable stores,*
- maintenance materials,*
- spare parts for plant and equipment,*
- strategic stockpiles (for example fuel stockpiles for use in the event of an emergency or a natural disaster),*
- stocks of unissued coin,*
- work in progress,*
- land and buildings being held for resale.*

I.1 – Materiality Thresholds

Materiality thresholds may be set to determine whether a given category of assets is part of inventories. This may be done in view of the diversity of inventories and the thin line that separates inventories from tangible fixed assets at times, and the thin line between inventories and expenses.

The thresholds, which are to be set out in the implementing legislation for the Standard, may be set for different types of items, for different types of goods and services production processes or for different types of activities.

The thresholds are intended to ensure a practical link between the central government's general-purpose financial statements and inventory management as it is practiced by managers to suit their own purposes. The central government's general-purpose financial statements need to be directly connected to the management systems of the Ministries holding inventories in order to meet their needs. If the link is an abstract one, the accounting information about inventories will be less relevant.

I.2 – Exclusions

The definition of inventories in the Standard excludes producers' inventories of livestock, agricultural and forest products, and mineral ores to the extent that they are measured at net realisable value in accordance with well-established practices in certain industries. This exclusion concerns, for example, goods where sale is assured by a central government guarantee or a forward contract, or where a homogenous market exists and there is negligible risk of failure to sell.

The Standard does not apply to work in progress of services to be provided for no or nominal consideration directly in return from the recipients, since it is very difficult to value such work.

II – ACCOUNTING TREATMENT AND VALUATION

The Standard stipulates that the initial value of inventories is equal to their cost. Subsequent inventory valuations are at the lower of cost and net realisable value, or, in the case of inventories held for distribution at no charge or for a nominal charge (or consumption in the production process of goods to be distributed at no charge or for a nominal charge), at the lower of cost and the current replacement cost, since the net realisable value is difficult to determine in this case.

If the net realisable value or the current replacement cost is lower than the initial value, write-down shall be recognised and recorded as an expense for the period in accordance with the usual asset impairment rules and the possibility of reversing the write-down.

II.1 – Cost of Inventories

Many central government inventories are linked to the provision of services rather than to assets purchased and held for resale or goods produced for sale. In the case of provision of services, inventories include the cost of services for which the central government has not yet recognised the related revenue. These costs are mainly the cost of labour and other costs for personnel directly engaged in providing the service, including supervisory personnel, as well as the attributable overheads. Labour and other costs relating to sales and to general administrative staff are not included but are recognised as expenses in the period in which they are incurred.

In more general terms, the cost of inventories includes purchase costs, conversion costs and other costs.

The cost of purchase for inventories includes the purchase price, transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and similar items are deducted in determining the cost of purchase.

The costs of converting inventories are incurred primarily in a manufacturing environment. They include costs directly related to the units of production, such as direct labour costs. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. A materiality threshold is required in some cases, such as certain military inventories, since consideration of costs of conversion incurred at the many levels of intermediation could lead to overstatement of the inventory value and make such values less meaningful.

Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.

On the other hand, examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:

- *abnormal amounts of wasted materials, labour, or other production costs;*
- *storage costs, unless those costs are necessary in the production process prior to a further production stage;*
- *administrative overheads that do not contribute to bringing inventories to their present location and condition;*
- *selling costs.*

II.2 – Cost Formulas

The Standard provides for two alternative methods:

- *the first-in, first-out formula, or*
- *the average weighted cost formula.*

The Standard also stipulates that the cost of inventories of items that are not ordinarily interchangeable and goods or services attributed to specific projects should be assigned by using specific identification of their individual costs. This means that specific costs are attributed to designated inventory items. This method is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable.

II.3 – Recognition as an Expense

The process of recognising the carrying amount of inventories sold, exchanged or distributed as an expense results in the matching of costs and revenues. For a service provider, the point when inventories are recognised as expenses normally occurs when services are rendered.

Some inventories may be allocated to other asset accounts, for example, inventory used as a component of fixed tangible assets that the central government produces for its own use. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

III – POSITION WITH REGARD TO OTHER ACCOUNTING STANDARDS

This Standard incorporates the provisions of IPSAS¹⁶ 12, which draw much of its inspiration from IAS 2 on inventories. The Standard also stipulates that inventories shall be subject to write-downs, under the conditions set out in the French Accounting Regulation Committee Regulation on depreciation and impairment of assets (Regulation 2002-10 of 12 December 2002). This stipulation is substantially consistent with the IAS and IPSAS mentioned above.

The two main differences between IPSAS 12 and IAS 2 are:

- *IPSAS 12 recognises that some central government and public sector inventories are “distributed at no charge or for a nominal charge”; the Standard also recognises that, in the case of the central government, work in progress of services that are to be distributed for no or nominal consideration are excluded from its scope;*
- *IPSAS 12 restricts the choice of cost formulas to two (first-in, first-out, or FIFO, on the one hand, and average weighted cost on the other hand); IPSAS 12 does not allow the last-in, first-out formula or LIFO, which is permissible under IAS 2.*

Thus IPSAS 12 deals with an important particularity of the central government, which distribute some goods and services with no direct equivalent consideration in exchange. The two conclusions that IPSAS draws from this are:

- *inventories distributed at no charge or for a nominal charge are not valued in the same way as other inventories: instead of valuing them at the lower of cost and net realisable value, they should be valued at the lower of cost and current replacement cost;*
- *work in progress of services for distribution at no charge or for a nominal charge is not included in inventories.*

This Standard complies with the provisions of IPSAS 12 on all of these points.

¹⁶ *The International Public Sector Accounting Standards (IPSAS), which apply to central governments and the public sector in general, are drawn up by the IFAC (International Federation of Accountants).*

STANDARD 8 - INVENTORIES

STANDARDS

1. SCOPE

1.1 SPECIFIC DEFINITIONS

In this Standard, the following terms shall have the meanings given below:

Inventories

Central government assets:

- in the form of raw materials or supplies to be consumed in a production process;
- in the form of raw materials or supplies to be consumed in the rendering of services;
- held for sale or distribution in the ordinary course of central government operations; or
- in the process of production for sale or distribution.

Net Realisable Value

The estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current Replacement Cost

The cost the central government would incur to acquire the asset at the reporting date.

1.2 SCOPE OF THE STANDARD

This Standard shall apply to inventories (as defined above) that are held or controlled by the central government. Central government control over the inventories concerned shall be assessed with regard to the control definition given in the Standard on the central government's tangible fixed assets.

The notion of inventories shall apply over materiality thresholds to be defined in the implementing legislation for this Standard. The thresholds may be set, for example, for different categories of items, for different types of production processes or for the different types of activities concerned.

This Standard shall not apply to:

- work in progress arising under construction contracts, including directly related service contracts;
- financial instruments;
- producers' inventories of livestock, agricultural and forest products, and mineral ores to the extent that they are measured at net realisable value in accordance with well established practices in certain industries;
- biological assets related to agricultural activity;
- work in progress of services to be provided for no or nominal direct consideration.

1.3 DISTINCTION BETWEEN INVENTORIES AND TANGIBLE ASSETS

Inventories are items used in production processes, in the provision of services or in selling output. Unlike tangible and intangible fixed assets, inventories are not intended for long-term use in the central government's operations.

2. ACCOUNTING TREATMENT AND VALUATION

An item shall be included in inventories when:

- its cost can be reliably measured;
- and it is likely that the future economic benefits arising from this item will flow to the central government.

2.1 INITIAL VALUATION

When inventories are first recognised in the central government financial statements, they shall be valued:

- at their acquisition cost (for inventories acquired for a purchase consideration);
- at their production cost (for inventories produced by the central government);
- at their market value (for inventories acquired free of charge).

2.2 SUBSEQUENT VALUATION

After inventories are first recognised in the central government's financial statements, they shall be valued at the lower of cost and the net realisable value, except when they are held for:

- distribution at no charge or for a nominal charge, or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

In the latter two cases, inventories shall be valued at the lower of cost and current replacement cost.

On this basis, a decline in the value of inventories shall be represented by a write-down. This write-down, according to the system set out in business accounting rules and explained below (2.5 Recognition as an Expense), shall give rise to an expense in the period and to a reversal of the write-down, if the value of the inventories subsequently increases.

The write-down shall be measured for each unit and each category. It shall account for the prospects for sale, distribution or use.

2.3 COST OF INVENTORIES

Other costs shall be included in the cost of inventories only to the extent that they are incurred in bringing the inventories to the location and condition of their initial recognition in the central government's financial statements. Costs of conversion shall only be included in the cost of inventories if they represent a substantial amount.

2.4 COST FORMULAS

The cost of inventories shall be determined using the first-in, first-out formula (FIFO) or the average weighted cost formula, except in the cases stipulated at the end of this section (2.4).

Application of the principle above should lead to use of the same cost formula for all inventories of a similar type and use. Different formulas may be warranted for inventories of different types and uses. A

difference in location (and the corresponding tax rules) is not sufficient grounds for using different formulas.

By way of an exception to the two previous paragraphs, the cost of inventories of items that are not ordinarily interchangeable and goods or services attributed to specific projects shall be assigned by using specific designation of their individual costs.

2.5 RECOGNITION AS AN EXPENSE

When inventories are sold, exchanged or distributed, their carrying amount shall be recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expense shall be recognised when the goods are distributed or when the related service is rendered.

The amount of any write-down of inventories to their net realisable value or their current replacement cost and all losses of inventories shall be recognised as an expense in the period when the write-down or loss occurs.

The amount of any reversal of any write-down of inventories as a result of an increase in the net realisable value or the current replacement cost shall be recognized as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3. DISCLOSURES IN THE NOTES

The financial statements shall disclose:

- the accounting policies adopted in measuring inventories, including the cost formula used; the total carrying amount of inventories and the carrying amount in each classification; the amount of any reversals of any write-down recognised as revenue in the period in accordance with paragraph 2.5; the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 2.5;
- the carrying amount of inventories pledged as security for liabilities.

The financial statements shall disclose either:

- the cost of inventories recognised as an expense during the period; or
- the operating costs applicable to revenues, recognised as an expense during the period, classified by their nature.

STANDARD 9
CLAIMS RELATED TO CURRENT ASSETS

STANDARD 9 - CLAIMS RELATED TO CURRENT ASSETS

INTRODUCTION

The purpose of this Standard is to define the rules for the accounting treatment and valuation of claims related to current assets.

I - SCOPE

Claims related to the central government's current assets are the sums that other entities owe to the central government and which, because of their nature or their purpose, are not to be recognised as fixed assets.

The claims related to the central government's current assets coming within the scope of this Standard are:

- *trade receivables arising from the sale of goods or the provision of services;*
- *claims for taxes and fines collected by the central government for its own account or on behalf of other entities;*
- *claims on other debtors.*

The Standard also applies to items related to claims on debtors, such as trade bills.

Claims related to cash transactions, on the other hand, are covered by Standard 10 on cash position components.

II – IMPAIRMENT OF OUTSTANDING CLAIMS RELATED TO CURRENT ASSETS

This Standard sets out the accounting treatment and valuation methods for impairment of claims.

Impairment provisions for outstanding claims shall be recognised:

- *as operating expenses, for claims collected on behalf of the central government;*
- *as intervention expenses, for claims collected on behalf of other entities, where the central government bears the risk of non-payment. In the case of local direct taxes for example, the impairment of tax claims is intended to account for decisions taken with regard to write-offs, tax relief and other rebates that will eventually have an impact on claims and which will constitute intervention expenses for the central government in subsequent periods.*

Outstanding claims where the central government does not bear the risk of non-payment (such as the tax on unoccupied housing) must also be valued at their recoverable amount. However, the central government does not incur an expense if these claims cannot be collected. Consequently, no impairment of these claims is recognised in the financial statements, but the notes contain information about the recoverable amount of these claims.

Impairment provisions can be calculated by examining each claim or by making a statistical estimate, as long as the formula used can account for the discount rate in each claim category on the basis of internal historical data.

Statistical estimates are used in cases where there are too many claims in a category to be examined individually. This is the case for tax claims in particular.

Impairment of outstanding tax claims involves different provisions for each type of tax, in keeping with the differences observed in the collection rates for each type of tax.

These different provisions are estimated statistically on the basis of the outstanding claims on the reporting date. Distinctions are drawn between:

- *doubtful and disputed claims where there is clear risk of non-payment;*
- *claims that do not yet present a clear risk of non-payment. These claims are also impaired since tax claims are never fully collected. These are mainly claims falling due after 31 December.*

The valuation method for tax claims is based on a classification of the claims into different categories according to their status at the reporting date (disputed claims, claims in insolvency proceedings) and distinction between claims for back taxes arising from tax audits and other claims. This classification of the claims makes it possible to apply a specific discount rate to each category. The different discount rates are arrived at by analysing historical data.

The accounting treatment of impairment loss is characterised by the reversal of the aggregate impairment of the initial outstanding claims and the recognition of the impairment loss on the outstanding claims at the reporting date.

The impairment of all outstanding tax claims on the reporting date means that no special account is needed to track impaired claims, such as the 416 item in the business chart of accounts for “Doubtful and disputed trade receivables”.

III – POSITION WITH REGARD TO OTHER ACCOUNTING STANDARDS

This Standard draws its inspiration from the general principles of the French Plan comptable.

The accounting treatment for claims related to the central government’s current assets complies with the general accounting principles for assets, to wit:

- *it is likely that the future economic benefits will flow to the entity;*
- *the claim is identifiable;*
- *its value can be reliably measured.*

Claims recognised as assets may have the following counterparts:

- *a central government revenue, if the recognition criteria for revenues are fulfilled;*
- *a liability item, if the recognition criteria for revenues are not fulfilled. For example, the counterpart to a claim collected on behalf of another entity is the obligation towards that entity.*

Settlement decisions that cancel central government claims are treated differently depending on the validity of the claim initially recorded.

Settlement decisions that reject the validity of the claims initially recorded (rebates and cancellation of claims following errors) are treated as a decrease in gross revenues. This is similar to the treatment of invoicing errors in business accounting.

Settlement decisions that do not reject the validity of the claims initially recorded (individual tax relief measures and write-offs of claims) are recognised as an expense. The reasoning is similar to that behind the treatment of debt cancellation and write-offs of bad debts in business accounting.

The general rules for the valuation of claims related to current assets also draw their inspiration from the French Plan comptable.

- *claims related to current assets are initially recognised for the amount owed to the central government by other entities;*

-
- *the value of outstanding claims related to current assets is equal to their recoverable amount, which corresponds to the expected cash flows;*
 - *decreases in the value of claims as a result of causes that are not deemed to have an irreversible effect are recognised as an impairment loss.*

STANDARD 9 - CLAIMS RELATED TO CURRENT ASSETS

STANDARDS

1. SCOPE

Claims related to the central government's current assets are the sums that other entities owe to the central government and which, because of their nature or their purpose, are not to be recognised as fixed assets.

This standard shall apply to:

- trade receivables;
- tax claims and fines;
- claims on other debtors.

This standard shall not apply to:

- claims related to equity investments;
- loans and advances granted by the central government;
- claims related to cash transactions.

2. ACCOUNTING TREATMENT

2.1 GENERAL ACCOUNTING TREATMENT PRINCIPLES

The accounting treatment of a claim related to current assets shall comply with the general accounting principles for assets.

Claims recognised as assets may have the following counterparts:

- a central government revenue, if the recognition criteria for revenues are fulfilled;
- a liability item, if the recognition criteria for revenues are not fulfilled.

2.2 ACCOUNTING TREATMENT OF CLAIM SETTLEMENT DECISIONS

The accounting treatment of claim settlement decisions shall be different for claims collected by the central government on its own behalf and the claims that it collects on behalf of other entities.

Settlement decisions that cancel central government claims shall be treated differently depending on the validity of the claim initially recorded:

- settlement decisions that reject the validity of the claim initially recorded shall be treated as a decrease in gross revenues;
- settlement decisions that do not reject the validity of the claim initially recorded shall be treated as operating expenses.

The accounting treatment of claim settlement decisions shall be different for claims collected by the central government on behalf of other entities, depending on whether the central government bears the risk of non-payment.

- if the central government bears the risk of non-payment, settlement decisions affecting these claims shall be treated as intervention expenses.

- if the central government does not bear the non-payment risk, settlement decisions affecting these claims shall be recognised as a reduction of liabilities towards the other entity recorded in the statement of financial position.

2.3 ACCOUNTING TREATMENT OF IMPAIRMENT OF CLAIMS

When the central government bears the risk of non-payment of claims, impairment of outstanding claims shall be recognised:

- as an operating expense, for claims collected on behalf of the central government;
- as an intervention expense, for claims collected on behalf of other entities.

When the central government does not bear the risk of non-payment of claims, no impairment shall be recognised.

3. VALUATION

3.1 INITIAL VALUATION

Claims related to current assets shall initially be recognised for the amount owed to the central government by other entities.

3.2 INVENTORY VALUATION

The inventory value of outstanding claims related to current assets shall be equal to their recoverable amount, which corresponds to the expected cash flows.

The carrying amount of claims related to current assets corresponds to the amount of outstanding claims at the reporting date.

If the inventory value of outstanding claims is lower than their carrying amount, then carrying amount shall be adjusted to the inventory value.

Decreases in the value of claims as a result of causes that are not deemed to be irreversible shall be recognised with an impairment loss.

The amount of the impairment provision can be calculated by examining each claim or by making a statistical estimate, as long as the formula used can account for the discount rate in each claim category on the basis of internal historical data.

Statistical estimates shall be used in cases where there are too many claims in a category to be examined individually.

4. DISCLOSURES IN THE NOTES

The notes to the financial statements shall explain the impairment formulas.

The notes shall provide information about the recoverable amount of claims where the central government does not bear the risk of non-payment.

STANDARD 10

CENTRAL GOVERNMENT CASH POSITION

COMPONENTS

STANDARD 10 - CENTRAL GOVERNMENT CASH POSITION COMPONENTS

INTRODUCTION

This Standard defines the components of the central government cash position for the purpose of identifying, presenting and analysing these components with due consideration for the specific features of the central government.

This Standard does not concern expenses and revenues arising from cash transactions, which are dealt with in Standard 2 on expenses and Standard 4 on operating revenues, intervention revenues and financial revenues.

I – SCOPE OF CENTRAL GOVERNMENT CASH POSITION COMPONENTS

This Standard applies to the assets and liabilities that make up the central government cash position.

The assets in the central government cash position are:

- *cash;*
- *“other cash”, meaning very short-term investments that are readily convertible to cash and not subject to the risk of a changes in value;*
- *“cash equivalents”, meaning short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.*

Liabilities in the central government cash position include funds repayable on demand or in the very short term (a few days). The funds concerned are the deposits made by Treasury correspondents and other authorised persons, along with funds related to central government cash management.

Some of these components are specific to the central government and others are not.

I.1 – The Deposits of the Treasury Correspondants and Other Authorised Persons: Specific Components

The deposits made by Treasury correspondents and other authorised persons are components in the central government cash position, since these funds have an impact on the central government’s cash on hand, even though the funds belong to other entities and are repayable on demand.

The Standard considers these deposits to be a liability in the central government cash position. According to the definition of financial debt given in Standard 11, these deposits cannot be recognised as a financial debts because the transactions concerned do not stem from a financing decision, but from a legal obligation to deposit funds with the Treasury (or an agreement calling for such deposits).

More specifically, depending on how precisely the terms of deposit are set, such deposits correspond to the notions of non-financial debt or other liabilities set out in Standard 12. However, they are dealt with by this Standard, since they are components of the central government cash position.

I.2 – Non-Specific Components

Non-specific components are cash on hand, items related to central government cash management and cash equivalents. The Standard classifies them in the central government cash position as assets or liabilities, as the case may be.

I.2.1 – Cash

Cash consists of all securities that are by nature immediately convertible to cash for their face amount.

It includes deposits in transit, balances with banks and cash on hand.

I.2.2 – Items Relating to Central Government Cash Management

The Treasury’s current account with the Banque de France must show a credit balance at the end of each day. The purpose of central government cash management is to limit the funds in this balance and invest any momentary surpluses for the best return. To meet these two objectives, the central government, depending on the situation, enters into repurchase (repo) transactions and reverse repurchase transactions using central government securities, it lends and invests funds on the interbank market or in some other European countries and it uses lines of credit. These transactions are central government cash position components since they involve either very short-term securities that are not subject to the risk of changes in value or demand deposits. Repurchase agreements involving central government securities and investments of surplus funds are assets in the cash position. More specifically, they are classified under “other cash”. Reverse repurchase agreements, cash loans and drawn lines of credit are included as liabilities in the cash position.

I.2.3 – Cash Equivalents

At this point, the central government does not use this type of instrument. However, since they are cash position components, the Standard does provide a definition of them. These short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value are classified as assets in the cash position.

II – PRESENTATION OF FINANCIAL STATEMENTS

The components of the central government cash position are shown as separate items in the central government financial statements to facilitate analysis.

Therefore:

- *“Cash” items are included under assets and liabilities in the statement of financial position,*
- *The cash flow statement for the period presents inflows and outflows of assets and liabilities that make up the central government cash position.*

III – POSITION WITH REGARD TO OTHER ACCOUNTING STANDARDS

In keeping with the objective of the Standard discussed above, the accounting definitions, principles and rules applying to cash position components are adapted to the specific features of the central government.

The accounting treatment and valuation rules are consistent with the ones set out in the French Plan comptable appended to amended French Accounting Regulation Committee Regulation 99-03 of 29 April 1999.

The definitions and the rules regarding the presentation of central government cash position components in the financial statements are specific to the central government.

STANDARD 10 - CENTRAL GOVERNMENT CASH POSITION COMPONENTS**STANDARDS****1. SCOPE**

The scope of the Standard shall encompass assets and liabilities related to central government cash transactions. These items shall include cash position components and the various claims and debts associated with these components.

1.1 CASH POSITION COMPONENTS

Cash transactions are operations that lead to changes in the amount and structure of the assets and liabilities that make up the cash position.

1.1.1 Assets

Assets include cash, other cash and cash equivalents.

1.1.1.1 Cash

Cash consists of all securities that are by nature immediately convertible to cash for their face amount.

It includes deposits in transit, balances with banks and cash on hand.

1.1.1.2 Other Cash

Other cash consists of very short-term investments that are readily convertible to cash and not subject to the risk of changes in value.

This item includes:

- claims arising from repurchase agreements involving government securities;
- claims arising from deposits of funds on the interbank market and with countries in the euro area.

A repurchase agreement is a transaction by which one person (the transferor) transfers title to its securities to the central government (the transferee) as collateral. The transferor and the transferee make irrevocable undertakings to repurchase/resell the securities at an agreed price and on an agreed date.

Deposits of funds on the interbank market and with countries in the euro area are very short-term transfers of funds that do not entail delivery of securities.

1.1.1.3 Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1.1.2 Liabilities

Liabilities are the counterpart to funds received that are repayable on demand or in the very short term and which may give rise to interest payments.

They include:

- deposits of the Treasury correspondents and other authorised persons;

- other liabilities.

1.1.2.1 Deposits of the Treasury Correspondents and Other Authorised Persons

Treasury correspondents are bodies that are required by law or by regulation to deposit funds with the Treasury or else are authorised under agreements to receive and disburse funds via Treasury accountants.

Other authorised persons are all those who are authorised to deposit funds with the Treasury.

1.1.2.2 Other Liabilities in the Cash Position

The other liabilities in the cash position are:

- debts arising from reverse repurchase agreements involving government securities;
- debts arising from loans contracted on the interbank market and with countries in the euro area;
- debts arising from the use of lines of credit.

A reverse repurchase agreement is a transaction by which the central government (the transferor) transfers title to its securities to another person (the transferee). The transferor and the transferee make irrevocable undertakings to repurchase/resell the securities at an agreed price and on an agreed date.

Loans contracted on the interbank market and with countries in the euro area are very short-term transfers of funds that do not entail delivery of securities.

Lines of credit are authorisations granted by financial intermediaries for a very short term.

1.2 MISCELLANEOUS CLAIMS AND DEBTS

Miscellaneous claims and debts include margin calls for collateral in repurchase agreements involving government securities.

Margin calls constitute debts or claims since they are repayable to the central government or to the counterparty at the end of a given term.

2. ACCOUNTING TREATMENT AND VALUATION

2.1 CASH POSITION COMPONENTS

2.1.1 Accounting Treatment Rules

2.1.1.1 Cash

Cash shall be recognised in the financial statements for the year in which the related amounts were acquired.

Deposits in transit shall be recognised:

- upon presentation, in the case of cheques;
- upon presentation for payment or discounting, in the case of trade bills;
- upon presentation for payment or upon maturity, as appropriate, in the case of other means of payment.

Cheques are recognised in special cash accounts when they are issued.

Balances with banks are recognised:

- when the transfer orders are issued;

- when bank statements are received in other cases.

2.1.1.2 Other Cash

Other cash position components shall be recognised in the financial statements for the year in which the related claims arise.

Claims arising from repurchase agreements involving government securities, deposits of funds on the interbank market and deposits with countries in the euro area shall be recognised when the transaction takes place.

2.1.1.3 Cash Equivalents

Cash equivalents shall be recognised in the financial statements for the year in which the related claims arise.

2.1.1.4 Liabilities in the Cash Position

Liabilities shall be recognised in the financial statements for the year in which the related obligations arise.

Liabilities related to deposits made by Treasury correspondents and other authorised persons shall be recognised when transactions are posted to their accounts or when funds are received or disbursed via Treasury accountants.

Debts arising from reverse repurchase agreements involving government securities, loans contracted on the interbank market and with countries in the euro area shall be recognised when the transaction takes place.

Debts related to lines of credit shall be recognised when the lines are used.

2.1.2 Valuation Rules

2.1.2.1 Initial Valuation

Assets and liabilities that make up the central government cash position shall be recognised at their face amount.

2.1.2.2 Subsequent Valuation

Cash in foreign currency on hand on the reporting date shall be converted into euros using the latest spot exchange rate. Foreign exchange gains and losses shall be recognised as revenues or expenses for the period.

Accrued interest owed on liabilities in the cash position and miscellaneous debts related to cash transactions shall be recognised on the reporting date.

2.2 MISCELLANEOUS CLAIMS AND DEBTS

Claims and debts arising from margin calls related to repurchase agreements involving government securities shall be recognised for the amount of the variation in the value of the securities received as collateral up to a given threshold.

3. DISCLOSURES IN THE NOTES

Disclosures shall provide information about outstanding discounted bills and the maximum authorised amount of credit lines.

STANDARD 10 - CENTRAL GOVERNMENT CASH POSITION COMPONENTS***EXAMPLE******LINKS WITH THE PROVISIONS OF THE CONSTITUTIONAL BYLAW***

The Constitutional bylaw makes a distinction between budget resources and expenses and cash resources and expenses.

Article 25 of the Law defines the limits of cash resources and expenses: “The central government’s cash resources and expenses shall arise from the following transactions: 1 Transfers of central government cash; 2 Discounting and collection of all types of bills issued to the order of the central government; 3 Management of funds deposited by correspondents; 4 The issuance, conversion, management and redemption of government bonds and other debts. The cash resources and expenses relating to these transactions shall include issue premiums and discounts.”

This Standard applies only to transactions 1, 2 and 3 in Article 25. The transactions mentioned in point 4 are covered by Standard 11 “Financial Debt and Derivative Financial Instruments” and by Standard 12 “Provisions for Risks and Liabilities, Non-Financial Debts and Other Liabilities”.

STANDARD 11
FINANCIAL DEBTS AND DERIVATIVE
FINANCIAL INSTRUMENTS

STANDARD 11 - FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS

INTRODUCTION

The objective of this Standard is to present the financing resources used by the central government as part of its financing strategy. These financing resources include financial debt and all of the financial instruments related to dynamic debt management.

This presentation of the financing resources used by the central government requires:

- *a definition of financing transactions, and more specifically financial debts, that is appropriate to the objective;*
- *detailed disclosures.*

To meet this objective, the Standard refers to accounting principles and rules that are appropriate to the nature of the transactions carried out and to the level at which they are to be tracked.

I – ACCOUNTING PRINCIPLES AND RULES

The internal accounting system of the debt management body (Agence France Trésor) provides a detailed statement of transactions according to the rules applying to enterprises regulated by the French Banking and Financial Regulations Committee. Each day, all of the entries from this internal accounting system are incorporated into the central government accounting system, according to the principles and rules defined in this Standard, which are consistent with those of the internal accounting system.

For example, negotiable and non-negotiable debt securities denominated in euros are subject to the usual principles and rules, since the French Plan comptable and the rules applying to enterprises regulated by the French Banking and Financial Regulations Committee are based on the rules set out in the French Commercial Code. The rules applying to enterprises regulated by the French Banking and Financial Regulations Committee are used for derivative financial instruments because they provide detailed and comprehensive tracking of these transactions. More specifically, these rules provide a fine classification of transactions involving interest rate swaps, which were the first derivative financial instruments traded by the central government. For this purpose, the Standard stipulates that swap contracts traded by the central government as part of its strategy for reducing the average term of financial debt, in keeping with a decision of the Minister of the Economy, Finance and Industry, shall be classified in category c), as defined by French Banking Regulation Committee Regulation 90-15 of 18 December 1990, as amended, on the accounting treatment of interest rate and currency swaps¹⁷, when analyses show that the reduction in the average term of the debt leads to a decrease in interest expense. The Standard stipulates that the reduction in the average term of the debt must correspond to a reduction in duration and thereby a reduction in interest rate sensitivity. Consequently, unrealised gains and losses on such contracts are not recognised as revenues or expenses for the period. All other interest rate swaps, which are not undertaken as part of the strategy defined above, should be classified and recognised according to the rules set out in the abovementioned Regulation 90-15. The notes to the financial statements must include disclosures of the market values and nominal amounts of all types of contracts. In the case of transactions in other derivative financial instruments, meaning currency swaps, futures and options, the Standard applies the accounting treatment and valuation rules set out in French Banking Regulation Committee Regulation 88-02 of 22 February 1988, as amended, on the accounting treatment of interest rate financial

¹⁷ Regulation 90-15 stipulates that category c) covers swaps “c) to hedge and to manage the institution’s overall interest-rate exposure on assets, liabilities and off-balance sheet items, excluding the operations referred to in b) or d); Such global hedging may only be effected if the institution measures its interest-rate risk globally [...] and if the decision-making body [...] has made a specific prior decision to manage interest-rate risk globally. Moreover, the institution must be able to prove that the swaps recorded in this category globally reduce overall interest-rate risks.”

futures and Regulation 90-15 of 18 December 1990, as amended, on the accounting treatment of interest rate and currency swaps.

The rules applying to enterprises regulated by the French Banking and Financial Regulations Committee are also used for debt securities denominated in foreign currency, for the sake of consistency with the internal accounting system. Owing to the nature of such transactions, the accounting treatment and valuation rules for foreign exchange transactions are those stipulated in French Banking Regulation Committee Regulation 89-01 of 22 June 1989, as amended, on the accounting treatment of foreign currency transactions.

II – POSITION WITH REGARD TO OTHER ACCOUNTING STANDARDS

The Standard refers to the French Plan comptable appended to French Accounting Regulation Committee Regulation 99-03 of 29 April 1999, as amended. It applies the accounting regulations applying to enterprises regulated by the French Banking and Financial Regulations Committee where warranted by the nature and the level of tracking of transactions.

This choice means that the Standard will have to be updated if the rules applying to enterprises regulated by the French Banking and Financial Regulations Committee change.

Given that the content of international standards on this issue have not been finalised, this Standard does not take them into consideration.

STANDARD 11 - FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS

STANDARDS

1. SCOPE

The scope of the Standard shall encompass assets and liabilities related to central government financing transactions.

Financing transactions are those that lead to changes in the amount and structure of financial debts and derivative financial instruments.

The related assets and liabilities are:

- financial debts, including negotiable and non-negotiable debt securities,
- derivative financial instruments,
- capitalised claims,
- miscellaneous debts.

1.1 FINANCIAL DEBT

Financial debts arise as a result of a financing decision on the part of the central government.

They include:

- either the counterpart to funds to finance the central government, repayable in the future and giving rise to interest payments.
- or the counterpart to the asset that they are intended to finance.

The scope of the Standard shall be limited to debt issued in the form of negotiable or non-negotiable debt securities to provide financing for the central government. It shall not cover financial debts arising from finance leases, which are dealt with in Standard 6 on tangible assets.

1.1.1 Negotiable Securities

Negotiable securities are book-entry securities traded on financial markets. They take the form of standardised Treasury bonds, notes and bills. Each category of security shall have the same characteristics.

When issues are fungible, the new lines shall be matched with existing lines and the price of subsequent issues shall be adjusted to market conditions.

Some securities feature indexed-linked principal or interest payments. Others are stripped, denominated in foreign currencies or issued on behalf of the Public Debt Fund.

1.1.2 Non-Negotiable Securities

Non-negotiable securities are securities that are not or are no longer traded on financial markets. These securities shall take the form of Treasury bonds, notes and bills, or annuities.

The ancient perpetual debt stock dating back to the 18th and 19th centuries, which is made up of entailed properties, endowments and annuities, is classified with these securities.

1.2 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are contracts in which one of the counterparties undertakes to deliver or take delivery of the underlying asset, or else to pay or receive a price differential on a given date or up until a given date. They constitute commitments that shall be disclosed in the notes to the central government financial statements.

They include:

- interest rate swaps, which are contracts in which interest flows denominated in the same currency and relating to a predetermined notional amount, term and payment schedule are exchanged;
- currency swaps, which are contracts in which flows of funds denominated in two different currencies and relating to a predetermined notional amount, term and schedule for principal and interest payments are exchanged;
- options, which are contracts between a seller and a buyer in which the buyer pays a premium to the seller for the right, but not the obligation, to buy or sell a specific quantity of an underlying asset at an agreed price and during a specific period or on a given exercise date;
- Futures contracts, which require the buyer to take delivery and the seller to deliver a standardised quantity of a specified underlying asset for a preset mutually agreed price on a given date.

1.3 CAPITALISED CLAIMS

Initial margin deposits paid as part of futures contracts or traded options arrangements shall be capitalised.

1.4 MISCELLANEOUS DEBTS

Miscellaneous debts include margin calls for collateral in transactions in derivative financial instruments.

Margin calls constitute debts since the central government has to repay them on a specific date.

2. ACCOUNTING TREATMENT AND VALUATION

2.1 FINANCIAL DEBT

2.1.1 General Accounting Treatment and Valuation Rules

The central government's financial debts may only be recognised in the financial statements if several conditions are met:

- they must be authorised by legislation;
- they must constitute a certain debt, meaning an obligation of the central government vis-à-vis another entity that will lead to an outflow of resources to the other entity;
- the amounts must be reliably measured.

Financial debts shall be recognised in the financial statements for the year in which the related debt securities were issued or the related loans were contracted.

Financial debts shall be recognised at their face amount, except in the case of index-linked securities. The face amount is the redemption amount.

2.1.2 Special Accounting Treatment and Valuation Rules

2.1.2.1 Index-Linked Securities: OATi and OAT€i

When the principal amount is index linked, the securities in question shall be recognised at the index-linked face amount.

Index revaluations during the term of the securities shall be recognised as financial expenses as they arise. If deflation leads to negative revaluations, they shall be recognised as financial revenues, as long as the value of security recognised as a liability does not go below the par value.

2.1.2.2 Premiums and Discounts on Securities Issued in Fungible Lines

The issue of fungible lines gives rise to a premium when the issue price of a security is higher than its face amount and a discount when the issue price is lower.

The premium or discount is recognised on the date of issue as the difference between the issue price and the face amount or index-linked face amount of government securities.

Premiums shall be recognised as financial revenues and discounts shall be recognised as financial expenses, and both are to be allocated over the term of the loan. The allocation shall be made using the actuarial method.

The full amount of discounts and premiums on the redeemed portion of the loan shall be recognised as expenses or revenues for the period.

2.1.2.3 Discount Securities

The difference between the issue price and the face amount of securities issued at a discount shall be recognised as prepaid financial expenses.

2.1.2.4 Redemption of Government Securities

In accordance with the legislation in force, redeemed securities shall be cancelled as soon as they are acquired and may not be put back into circulation.

The difference between the redemption price and the face amount or index-linked face amount of redeemed securities shall be recognised as a financial expense or financial revenue.

2.1.2.5 Stripped Bonds

The OAT in question is exchanged for two securities that can be traded separately. One security represents the interest flows (coupon) and the other one represents the repayment of principal at maturity (principal certificate).

2.1.2.6 Bonds with Capitalised Interest

Capitalised interest shall be added to financial debts on each coupon date.

2.1.2.7 Foreign Currency Bonds

Bonds denominated in foreign currencies shall be hedged against exchange rate risks. In this manner, the exchange rate losses or gains arising from the bond transactions shall be offset by those arising from the hedging transactions.

2.1.2.7.1 Principal

Commitments arising from bonds denominated in foreign currencies must be recognised as off-balance sheet items on the date of inception.

Upon delivery of the foreign currency, the bonds shall be recognised in the statement of financial position under separate items denominated in each of the currencies used.

At each reporting date, the bonds denominated in foreign currencies shall be valued at the market rate on the reporting date or the market price observed on the nearest date before the reporting date. The resulting revaluation differences shall be recognised as expenses or revenues.

2.1.2.7.2 Interest

Accrued Interest

Interest shall be recognised under separate expense items denominated in each of the currencies used.

At each reporting date, the accrued interest expense in foreign currencies shall be valued at the spot rate for the currency concerned and recognised as an expense.

Unaccrued Interest

Unaccrued interest payable in foreign currencies shall be recognised in off-balance sheet items when they have been hedged as defined in paragraph 2.1.2.7.3 below.

2.1.2.7.3 Hedging

Transactions shall be deemed to be for hedging purposes when they are intended to offset or attenuate the exchange rate risk exposure of homogenous groups of assets, liabilities or off-balance sheet items.

At each reporting date, the hedging transactions shall be valued at the market prices used to value the hedged items. The resulting revaluation differences shall be recognised as expenses or revenues symmetrically to the recognition of gains and losses on the hedged items.

2.1.2.8 Securities Issued on Behalf of the Public Debt Fund

Issues of Treasury bills and notes or bonds on behalf of the Public Debt Fund shall be recognised as financial debts at their face amount.

The transfer of the securities to the Public Debt Fund shall be treated as a securities loan. Consequently, the claim arising from the loan shall be recognised as a financial asset for the face amount of the securities concerned and recorded as the counterpart to the financial debts. This claim shall not be impaired since the face amount of the securities is the redemption amount.

2.2 DERIVATIVE FINANCIAL INSTRUMENTS

2.2.1 Accounting Treatment and Valuation Rules for Interest Rate Swaps and Currency Swaps

2.2.1.1 Classification of Swaps by Purpose

2.2.1.1.1 General Provisions

In accordance with the accounting regulations applying to enterprises regulated by the French Banking and Financial Regulations Committee¹⁹, interest rate swaps and currency swaps shall be classified in one of the following categories according to whether their purpose is:

- *“a) to maintain isolated open positions in order to benefit, if possible, from movements in interest rates;*
- *b) to hedge, in a manner identified at the outset, the interest-rate risk affecting an item or a group of homogeneous items;*
- *c) to hedge and to manage the institution’s overall interest-rate exposure on assets, liabilities and off-balance sheet items, excluding the operations referred to in b) or d). Such hedging may only be*

¹⁹ Regulation 90-15 of 18 December 1990, as amended, on the accounting treatment of interest rate and currency swaps

effected if the institution measures its aggregate interest-rate exposure [...] and if the executive body [...] has taken a specific prior decision to manage aggregate interest-rate risk. Furthermore, the institution must be able to prove that, in aggregate, the swaps recognised in this category actually contribute to a reduction in aggregate interest-rate risk;

- *d) to permit specialised management of a trading portfolio comprising: specific interest-rate or currency swaps, other derivative interest-rate instruments, securities or equivalent financial transactions. Interest-rate or currency swaps included in this portfolio may only be earmarked for such management if the following five conditions are met:

 - *the institution is able to maintain an uninterrupted, long-term presence on the interest-rate and currency swap market;*
 - *a significant number of transactions are made in the swap trading portfolio;*
 - *the portfolio is constantly managed in aggregate, for example as regards sensitivity,*
 - *positions are centralised and results are calculated daily,*
 - *internal limits for interest-rate risk exposure on the portfolio have been established in advance [...].**
- *Swaps that do not meet the conditions referred to in b), c) and d) above shall be recorded in category a)."*

2.2.1.1.2 Specific Provisions

A strategy to reduce the average term of the central government's financial debt, which decreases the average interest expense over the long term, all else being equal, in exchange for an increase in the average short-term variability of the interest expenses shall be deemed to be a strategy for hedging and managing aggregate interest-rate risk exposure on the debt in compliance with condition c) in the Regulation cited above, particularly if:

- the Minister of the Economy, Finance and Industry has made a decision in favour of aggregate interest-rate risk management;
- the reduction in the average term of the debt corresponds to a reduction in duration and thereby a reduction in interest-rate sensitivity.
- the effectiveness of the hedging policy has been demonstrated.

All interest-rate swaps that are part of such a strategy shall be classified in category c) of the Regulation cited above.

2.2.1.2 Accounting Treatment and Valuation During the Period

The face amounts of swaps, regardless of whether they are to be paid upon expiry or not, shall not be recognised in the statement of financial position. Swaps shall be recorded as off-balance sheet items at their inception.

Interest paid or received shall be recognised as financial expense or revenue in the period in which the movement of funds takes place. These flows may be recorded at their net amount when the flows for the same contract are denominated in the same currency and correspond to the differential between rates of interest paid or received.

2.2.1.3 Accounting Treatment and Valuation at the Reporting Date

At each reporting date, the accounting treatment of expenses and revenues arising from interest-rate swaps or currency swaps depends on the category of the contract. The expenses and revenues are made up of accrued interest and unrealised losses or gains.

Unrealised losses or gains are the losses and gains arising from the difference between the estimated market value at the reporting date and the same value at the previous reporting date.

2.2.1.3.1 Accounting Treatment and Valuation at the Reporting Date for Expenses and Revenues Arising from Swaps in Category a)

Accrued interest shall be recognised as financial expense or revenue as it accrues. Interest relating to the same swap may be netted.

A provision for risks and liabilities shall be set aside for unrealised losses relating to homogeneous groups of swaps and unrealised gains shall not be recognised in the financial statements.

For the purposes of the preceding paragraph, swaps shall not be considered to form a homogeneous group unless:

- they are denominated in the same currency or in two different currencies with closely linked exchange rates; and
- the reference indices for variable rate commitments are the same or closely correlated; and
- the residual maturities of less than two years, two to seven years or more than seven years differ by no more than one month, six months or one year respectively.

2.2.1.3.2 Accounting Treatment and Valuation on the Reporting Date for Expenses and Revenues Arising from Swaps in Category b)

The expenses and revenues arising from swaps in category b) shall be recognised as financial expenses and revenues and subject to the same accounting treatment as the revenues and expenses of the hedged item or items. If the hedged item or items are disposed of before the expiry of the swap, subsequent valuation of the swap shall comply with the rules for the transactions mentioned in a), b) or d) in paragraph 2.2.1.1.1, depending on the new designation of the transactions.

The accrued interest relating to the same swap may be netted.

2.2.1.3.3 Accounting Treatment and Valuation on the Reporting Date for Expenses and Revenues Arising from Swaps in Category c)

Accrued interest shall be recognised as financial expense or revenue as it accrues. The accrued interest relating to the same swap may be netted.

Unrealised losses and gains shall not be recognised.

2.2.1.3.4 Accounting Treatment and Valuation on the Reporting Date for Expenses and Revenues Arising from Swaps in Category d)

The expenses and revenues arising from swaps in category d) shall be recognised symmetrically to the revenues and expenses arising from the transactions in the opposite direction and recognised at the reporting date.

This symmetry shall be observed by valuing the interest-rate and currency swaps at market value and by valuing the other financial instruments, included in the same specialised management unit, at the market price on the nearest date before the reporting date. In this case, variations in the values of swaps and other instruments from one reporting date to the next and the cash flows arising from these swaps shall immediately be recognised as expenses or revenues.

2.2.2 Accounting Treatment and Valuation Rules for Derivative Interest-Rate Instruments (Other than Interest-Rate Swaps)

2.2.2.1 General Provisions

The face amounts of contracts, regardless of whether or not they are to be paid upon maturity, shall not be recognised in the statement of financial position. Contracts shall be recorded as off-balance sheet items at their inception.

Losses and gains on derivative interest-rate instruments shall be recognised under different conditions depending on whether they are traded on financial markets or dealt with in over-the-counter transactions, and depending on whether or not they arise from qualified hedging transactions.

2.2.2.1.1 Instruments Traded on Financial Markets or Over the Counter

The accounting treatment for losses and gains on derivative interest rate instruments calls for transactions to be classified according to whether they are traded on an organised market, on a market similar to an organised market or over the counter.

Markets for derivative financial instruments shall be deemed to be organised if they meet the following conditions:

- there is a clearinghouse that organises market liquidity and guarantees execution of transactions;
- market operators' positions are adjusted daily through payment of clearing balances;
- operators are required to make an initial margin deposit to cover any potential default and the margin is adjusted for long positions in options.

Over-the-counter markets in derivative financial instruments and options markets shall be classified with organised markets when their liquidity can be deemed to be assured.

All other markets that do not meet the criteria above shall be classified as over-the-counter markets.

2.2.2.1.2 Hedging

Transactions designated as hedging shall have the following characteristics:

- the item being hedged adds to the central government's exposure to aggregate repricing risk or interest-rate risk;
- the derivative financial instrument reduces the repricing risk and interest-rate risk exposure incurred on the hedged item or group of homogeneous items;
- The hedged item may be an asset, a liability, an off-balance sheet commitment or a future transaction that is very likely to be executed;
- there is an established correlation between variations in the value of the hedged item and variations in the value of the contract involved in the hedging transaction, or variations in the value of the underlying financial instrument, in the case of options.

When a transaction is designated as hedging, it shall be treated as such from inception until it expires or is closed out.

2.2.2.1.3 Accounting Treatment and Valuation Rules for Losses and Gains on Derivative Interest-Rate Instruments (Other than Interest-Rate Swaps)

Realised losses and gains are the final variations in the value of derivative financial instruments arising when the contract expires or is closed out.

Unrealised losses and gains are variations in the value of derivative financial instruments before expiry or close-out.

Realised losses and gains are recognised as financial expenses and revenues at the date when the contract expires or is closed out.

Unrealised losses and gains on contracts traded on organised and similar markets are recognised as financial expenses and revenues at the reporting date. In other cases, unrealised gains shall not be recognised as revenue and a provision for risks and liabilities shall be set aside for unrealised losses up to the amount of the net risk exposure.

The provisions of the two preceding paragraphs shall not apply to designated hedging transactions.

Realised and unrealised losses and gains on designated hedging transactions are recognised as expenses and revenue during the residual maturity of the hedged item symmetrically to the accounting treatment of the gains and losses on the hedged item.

2.2.2.2 Special Rules for Interest Rate Futures

2.2.2.2.1 Interest Rate Futures Traded on Organised Markets and Similar Markets

Initial margin deposits shall be capitalised when they are made.

Variations in the value of interest-rate derivatives traded on organised markets and similar markets, recognised at the most recent daily margin adjustment, shall be recorded as financial expenses or revenues when margin payments are made and received, or, failing that, at the reporting date. They shall be recorded until the contract expires or is closed out.

The provisions of the preceding paragraph shall not apply to designated hedging transactions. Variations in the value of interest-rate derivatives designated as hedging instruments shall be recorded as deferred revenues or expenses at the most recent daily margin adjustments and they shall be recognised until the contract expires or is closed out. At the latter date, the deferred revenues and expenses are posted to the statement of financial performance over the residual term of the hedged item symmetrically to the accounting treatment of the revenues or expenses arising from the hedged item. When the hedged item is derecognised, the remaining deferred revenues or expenses shall be posted to the statement of financial performance in full. If the contract has not yet been closed out, subsequent variations shall be recognised as financial expenses or revenues.

2.2.2.2.2 Over-the-Counter Interest Rate Futures

Variations in the value of interest rate derivatives that are not traded on organised markets and similar markets shall be recognised as financial expenses or revenues when the contracts expire or are closed out. Unrealised gains shall not be included in revenues and, when transactions give rise to an aggregate unrealised loss, a provision for risks and liabilities shall be set aside.

The provisions of the preceding paragraph shall not apply to designated hedging transactions.

The variations in the value of over-the-counter derivatives used for hedging purposes shall be recognised as stipulated in paragraph 2.2.2.2.1 for hedging transactions, even when there is no daily margin adjustment.

2.2.2.3 Special Rules for Interest Rate Options

2.2.2.3.1 Accounting Treatment of Premiums and Initial Margin Deposits Relating to Interest Rate Options Traded on Organised Markets and Similar Markets

The premiums arising from a sale of interest rate options shall be recognised as liabilities in the statement of financial position. Initial margin deposits paid by option writers shall be capitalised when they are made. Margins shall be adjusted according to market prices on a daily basis.

Premiums paid for a purchase of interest rate options shall be recognised as assets in the statement of financial position.

2.2.2.3.2 Accounting Treatment of Variations in the Value of Premiums Relating to Interest Rate Options Traded on Organised Markets and Similar Markets

Variations in the value of premiums for interest-rate options traded on organised markets and similar markets, as determined with regard to market prices, shall be recognised as financial expenses or revenues at the reporting date. This amount shall be the counterpart to the liability and asset items where the premiums are recorded until the contract expires or is closed out.

The provisions of the preceding paragraph shall not apply to hedging transactions.

Variations in the value of interest-rate options held for hedging purposes and traded on organised markets and similar markets shall be recognised as stipulated in paragraph 2.2.2.2.1 for hedging transactions, even when there is no margin adjustment.

2.2.2.3.3 Accounting Treatment of Variations in the Value of Premiums Relating to Over-the-Counter Interest Rate Options

Variations in the value of premiums for over-the-counter interest-rate options shall be recognised as financial expenses or revenues when the contracts are closed out. Unrealised gains shall not be included in revenues and, when transactions give rise to an aggregate unrealised loss, a provision for risks and liabilities shall be set aside.

The provisions of the preceding paragraph shall not apply to hedging transactions.

The variations in the value of over-the-counter options used for hedging purposes shall be recognised as stipulated in paragraph 2.2.2.2.1 for hedging transactions, even when there is no margin adjustment.

2.3 CAPITALISED CLAIMS

Initial margin deposits paid under the terms of forward and options contracts traded on organised market are dealt with in paragraph 2.2.

2.4 MISCELLANEOUS DEBTS

Claims and debts arising from margin calls related to interest-rate swaps shall be recognised for the amount of the variation in the value of the contract up to a given threshold.

3. DISCLOSURES IN THE NOTES

3.1 FURTHER INFORMATION ABOUT FINANCIAL DEBT

Financial debt shall be broken down by nature, with information about the restated amounts relating to finance leases (see Standard 6 on tangible assets).

Borrowing shall be broken down by currency, by maturities (less than one year, more than one year and more than five years) and by type of interest rate (fixed rate, variable rate).

3.2 FURTHER INFORMATION ABOUT FINANCIAL INSTRUMENTS

The following information shall be provided in the notes:

- a breakdown of outstanding off-balance sheet amounts of derivative financial instruments at the reporting date by purpose, nature and type of market, type of revenue and residual maturity;
- amount of transactions relating to derivative financial instruments where the amounts recognised in the statement of financial position are material, particularly option premiums;
- information about interest-rate risks, exchange-rate risks and counterparty risks on all derivative financial instruments;

-
- information about the market value of derivative financial instruments compared to the amount reported in off-balance sheet items, along with a commentary about the changes in this value over the period;
 - information about the market value of debt and a commentary about the changes in this value over the period.

STANDARD 11 - FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS

EXAMPLES

I – IMPACT OF THE NEW DEFINITION FOR FINANCIAL DEBT

Financial debts arise as a result of a financing decision on the part of the central government. The counterparts to this debt are either funds for financing the central government that are repayable in the future and give rise to interest payments or else an asset that the debt is intended to finance.

This definition leads to changes in the current structure of the central government’s financial debt. Up until now, this debt included:

- *negotiable and non-negotiable debt securities;*
- *Treasury securities issued on behalf of international organisations as a counterpart to the central government’s contribution;*
- *miscellaneous central government commitments;*
- *the counterpart of coin in circulation.*

Under the new Standard, only the negotiable and non-negotiable debt securities are still included under financial debt. The other items no longer fit the definition given above:

- *Treasury securities issued on behalf of international organisations represent the counterpart to a fraction of France’s share in the capital or resources of these funds. These funds are not for financing the central government. Instead they represent the international organisation’s agreement to accept Treasury notes and bills in place of some or all of the funds owed by the central government when the organisation deems that the funds are not needed for its operations.*
- *Central government commitments are acknowledgements of debts that the central government must eventually repay. Therefore, they do not represent a means of financing chosen by the central government. They include debts arising from contractual commitments vis-à-vis individuals and enterprises or else other entities’ debts that are covered by the central government. These commitments include supplementary compensation for French citizens repatriated from overseas, securities for the repayment of VAT claims and other entities’ borrowing covered by the central government.*
- *Coin in circulation is a liability to be recorded in the central government’s statement of financial position to the extent that, if members of the public sought to dispose of their coin holdings, the central government would have to reimburse them. In a similar manner, banknotes in circulation are shown as a liability in the Banque de France’s balance sheet. Yet, this money is not intended to provide financing for the central government.*

Consequently, miscellaneous central government commitments shall be reclassified as “non-financial debt” and covered by Standard 12 on “Provisions for Risks and Liabilities, Non-Financial Debts and Other Liabilities”. Treasury notes and bills issued on behalf of international organisations and the counterpart to coin in circulation shall also be covered by Standard 12. They are certain liabilities where the timing and amount are not determined precisely. Consequently, they shall be classified with “other liabilities” in Standard 12.

II - SECURITIES ISSUED ON BEHALF OF THE PUBLIC DEBT FUND

Article 125 of the 2003 Budget Act stipulated that “the Public Debt Fund may receive any negotiable government debt security issued by the central government under the authorisation for this purpose

granted to the Minister responsible for the economy in the Budget Act each year. The Fund shall be authorised to lend or sell these securities.

III - LINKS WITH THE PROVISIONS OF THE CONSTITUTIONAL BYLAW

According to the terms used in Article 25 of the Constitutional bylaw, the financial debt transactions covered by this Standard are, “issuance transactions, conversion transactions, management transactions and redemption transactions involving central government borrowing.

STANDARD 12

**PROVISIONS FOR RISKS AND
LIABILITIES, NON-FINANCIAL DEBTS
AND OTHER LIABILITIES**

STANDARD 12 - PROVISIONS FOR RISKS AND LIABILITIES, NON-FINANCIAL DEBTS AND OTHER LIABILITIES

INTRODUCTION

This Standard deals with provisions for risks and liabilities, non-financial debts and other liabilities.

I - SCOPE

I.1 Provisions for Risks and Liabilities

The general principles of business accounting are transposable to the central government with regard to provisions for risks and liabilities. At the reporting date, provisions for risks and liabilities must be recognised to ensure that all of the central government's liabilities for the period are included in the statement of financial position, if:

- *The central government has an obligation vis-à-vis another entity. The obligation may be legal (under a contract, legislation or regulations) or else an obligation acknowledged by the central government (arising from a policy announcement or an explicit authorised statement).*
- *An outflow of resources is certain or likely, with no counterpart expected for the central government.*
- *There is a reliable valuation of the obligation amount.*

Consequently, provisions for liabilities include provisions for operating expenses, such as current expenses that are not related to sales, or expenses for restructuring of central government operations, such as improvements in services to users, compliance with regulatory changes (new environmental or security standards, etc.) and for administrative reorganisation. Provisions for risks mainly concern central government commitments in various economic areas, including major financial risks incurred when the central government provides loan guarantees for enterprises and international and national banking organisations for guarantees or activities performed as part of its general interest and public service tasks. They also concern disputes arising from the central government's activities as an employer, tax collector and economic player or from its role as the insurer of last resort.

Ultimately, the criterion for distinguishing between expenses and provisions for risks and liabilities is the "lesser certainty" as to the amount or the timing of the outflow of resources required to settle the obligation.

I.2 – Non-Financial Debt

Non-financial debt is defined in contrast to provisions for risks and liabilities, which are liabilities where the timing or the amount are not precisely determined. Non-financial debt covers certain liabilities where the amount and timing are determined precisely.

These liabilities include:

- *operating debt, such a trade payables and related items;*
- *intervention debt, such as the debts related to central government transfers;*
- *other non-financial debt, such as debts on fixed assets, the central government's tax liabilities (VAT credits) or instalment payments received for taxes (corporate income tax, for example).*

I.3 - Other Liabilities

By definition, other liabilities constitute a category that is specific to the central government, to the extent that these liabilities do not fit the definition of non-financial debt or the definition of provisions for risks and liabilities. Other liabilities are liabilities where the timing is not determined precisely, but the amount is.

They include:

- *Treasury notes and bills issued on behalf of international organisations, which are certain liabilities recorded in the central government's statement of financial position for an exact amount, since they represent the central government's contribution to such organisations. However, the maturity of these Treasury notes and bills is not determined precisely. International organisations accept these securities in place of some or all of the money that the central government owes them and which they deem to be unnecessary for their operations. Consequently, they only redeem the securities when they need the money.*
- *Counterpart of coin in circulation, which is a certain liability recorded in the central government's statement of financial position for a precise amount to the extent that if members of the public sought to dispose of their coin holdings, the central government would have to reimburse them. However, the reimbursement date is uncertain.*

II – POSITION WITH REGARD TO OTHER ACCOUNTING STANDARDS

II.1 - Provisions for Risks and Liabilities

The standards on provisions for central government risks and liabilities are consistent with the general principles for setting aside and valuing provisions for risks and liabilities set out in French Accounting Regulation Committee Regulation 2000-06 of 7 December 2000 on liabilities.

II.2 – Non-Financial Debt

The standards relating to the central government's non-financial debt are consistent with the general principles set out in the French Plan comptable.

II.3 - Other Liabilities

The standards on other liabilities are consistent with the general principles for recognising and valuing liabilities set out in French Accounting Regulation Committee Regulation 2000-06 of 7 December 2000 on liabilities.

STANDARD 12 - PROVISIONS FOR RISKS AND LIABILITIES, NON-FINANCIAL DEBTS AND OTHER LIABILITIES

STANDARDS

1. SCOPE

This standard shall apply to:

- provisions for risks and liabilities with no precisely defined maturity or amount;
- non-financial debt, which relates to liabilities where the amount and timing are determined precisely;
- other liabilities for a precisely determined amount with no precisely defined maturity.

On the other hand, this Standard shall not apply to provisions for financial instruments or the provision for aggregate risk on central government equity investments valued using the equity method.

1.1 PROVISIONS FOR RISKS AND LIABILITIES

Provisions for liabilities relate to:

- operating expenses;
- intervention expenses;
- tangible assets;
- restructuring.

Provisions for risks relate to:

- commitments provided;
- disputes;
- exchange rate losses.

1.2 NON-FINANCIAL DEBT

Non-financial debt includes:

- operating debts, which are the counterpart to the operating expense related to the non-financial debt;
- intervention debts, which are the counterpart to the intervention expense related to the non-financial debt;
- other non-financial debt.

1.3 OTHER LIABILITIES

Other liabilities include:

- Treasury notes and bills issued on behalf of international organisations, which represent the counterpart to a fraction of France's share in the capital or resources of these funds.
- the counterpart to coin in circulation, which represents the amount that the central government would have to pay members of the public if they sought to dispose of their coin holdings.

2. ACCOUNTING TREATMENT

2.1 ACCOUNTING TREATMENT OF PROVISIONS FOR RISKS AND LIABILITIES

A provision for risks and liabilities shall be recognised when the three following conditions are met:

- The central government has an obligation vis-à-vis another entity arising from the current period or an earlier period. The obligation may be legal (under the terms of a contract, legislation or regulations) or else an obligation acknowledged by the central government (arising from a policy announcement or an explicit authorised statement). The existence of the obligation is determined at the reporting date.
- It is certain or probable that an outflow of resources will be required to settle the central government's obligation vis-à-vis the other entity, without any expected equivalent consideration in exchange. The probability of the outflow of resources shall be assessed at the date at which the central government draws up its own financial statements.
- The amount of the obligation can be estimated reliably. The amount shall be assessed at the date at which the central government draws up its own financial statements.

If exceptional, important and material events occur that are unprecedented, a provision for risks and liabilities shall be recognised if these events may give rise to a probable outflow of resources that can be reliably estimated.

Once a provision for risks and liabilities has been recognised, it may only be used for the expenditures for which it was initially constituted.

2.2 ACCOUNTING TREATMENT OF NON-FINANCIAL DEBT AND OTHER LIABILITIES

Other liabilities shall be recognised when the central government has an obligation vis-à-vis another entity and this obligation is certain to entail an outflow of resources to the other entity without any equivalent consideration being expected in exchange.

3. VALUATION

3.1 VALUATION OF PROVISIONS FOR RISKS AND LIABILITIES

3.1.1 Initial Valuation

Valuation Principle

The provision for risks and liabilities shall be valued at the amount representing the best estimate of the outflow of funds needed to settle the obligation vis-à-vis another entity. The expenses to be taken into consideration are the ones that contribute directly to the settlement of the obligation.

Valuation Procedures

The valuation of the provision amounts to be set aside is made on an individual basis or on a statistical basis.

Several valuation assumptions can be made about the outflow of resources, but the best estimate is the one based on the most probable assumption, meaning the assumption that covers a large number of similar cases. Uncertainties about the valuation assumptions that are not used should be mentioned in the notes. The estimated amount of provisions for risks and liabilities shall represent the best estimate of the expenditures required to settle the central government's obligation vis-à-vis the other entity.

The estimated amount must take account of two parameters:

- the impact of future events, when there is objective evidence that these events will occur. Only data available at the date at which the central government draws up its own financial statements shall be used to estimate the probable amount of the outflow of resources.
- Compliance with the principle of no offsets: the provision amount must not be reduced by the value of an asset to be received when reimbursement is expected of the expenditures required to settle an obligation.

3.1.2 Subsequent Valuation

The amount of provisions for risks and liabilities shall be adjusted at each reporting date to account for the best estimate at that date.

The rules on the initial valuation of provisions for risks and liabilities shall apply to subsequent valuations as well.

Provisions that are no longer needed shall be cancelled. Such provisions represent those for obligations that the central government no longer has or obligations where it is no longer probable that an outflow of resources, with no equivalent consideration expected in exchange, will be necessary to settle the central government's obligation vis-à-vis the other entity. The result is:

- either a decrease or an increase in the amount of the provision;
- or a cancellation of the provision amount, when the provision is no longer needed.

3.2 VALUATION OF NON-FINANCIAL DEBT AND OTHER LIABILITIES

Non-financial debt and other liabilities shall be valued at their face value.

Non-financial debt denominated in foreign currencies shall be converted into euros using the most recent exchange rate.

4. DISCLOSURES IN THE NOTES

4.1 GENERAL INFORMATION

Information shall be provided about the following for each category of provisions for risks and liabilities:

- the carrying amount of the provisions for risks and liabilities at the start and at the end of the period;
- the amounts of the provisions for risks and liabilities set aside during the period;
- the amounts used during the period;
- the unused amounts cancelled during the period.

Information shall be provided about the following for each individual provision for risks and liabilities of significant size:

- the nature of the obligation and the expected expenditure date of the amounts set aside;
- uncertainties about the amounts and timing of the expenditures, and, when necessary, the main assumptions made about future events in the estimate;
- the amount of any expected reimbursement with details about the amount of any asset recognised for this reimbursement.

The notes shall also provide information about any changes in methods or structures.

4.2 SPECIAL DISCLOSURES

Cases where it is not possible to provide some of the information required in paragraph 4.1 or where it is not possible to make a reliable estimate of the amount of the obligation shall be mentioned in the notes.

In cases where providing the required information would be harmful to the central government's interest in a dispute with another entity about the matter giving rise to a provision for risks and liabilities, the information in the notes shall be restricted to a general discussion of the nature of the dispute, the fact that the information has not been provided and the reason for this.

STANDARD 13

COMMITMENTS TO BE DISCLOSED IN NOTES TO THE FINANCIAL STATEMENTS

STANDARD 13 - COMMITMENTS TO BE DISCLOSED IN NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

This Standard identifies the central government commitments that should be disclosed in the notes to the central government financial statements because of their materiality and their potential impact on the assets and liabilities that make up the central government's financial situation. These commitments are called "off-balance sheet commitments".

This Standard also sets out the procedures for recognition and valuation of these commitments.

I – PARTICULARITY OF THE STANDARD

I.1 – No Transposable Accounting Standard for the Central Government

The particularity of this Standard stems from the lack of any other accounting standards that can be transposed to the central government's activities. The French Plan comptable does not provide a precise definition of the commitments to be reported in the financial statements. The only allusion to "off-balance sheet commitments" is made to introduce a special accounting category, class 8.

This means that there are no official business accounting standards for reporting commitments. The presentation of commitments must be aimed at providing information that complies with general accounting principles, and the principle of faithful representation in particular. The types of commitments that need to be disclosed in the notes are often determined on the basis of the enterprise's business activities and the scope of its responsibilities.

The situation is different for the central government, because, in addition to ordinary commitments, it may be called upon to cover risks in its role as the "insurer of last resort". Increasingly, the central government is called upon to cover economic risks (restructurings), weather risks (heat waves, storms), food risks (bovine spongiform encephalopathy), health risks (contaminated blood products), etc. It is difficult to draw up the list of such risks or to determine the probabilities involved. Any exceptionally important event tends to entail an implicit commitment on the part of the central government, even when its liability has not been established.

This makes it more difficult to establish the complete list of commitments for a central government than it is for an enterprise.

However, in compliance with the principle of faithful representation stipulated in Article 27 of the Constitutional bylaw, all of the central government's commitments must be disclosed in the notes. This requirement is upheld in Article 54, which stipulates that the central government must provide a valuation of off-balance sheet commitments in the central government's general-purpose financial statements.

There does not seem to be any problem with establishing a list of the commitments in the form of "guarantees", which are granted and managed under the terms of Article 34, II, 5 of the Constitutional bylaw. This list is easy to disclose in the notes to the central government statement of financial position.

On the other hand, it is difficult to draw up a complete list of other commitments to cover unidentified risks, particularly in the case of implicit central government commitments vis-à-vis other entities.

Consequently, the commitments that should be mentioned in the notes relate to contingent liabilities arising from:

- commitments given under the terms of agreements;

- *commitments stemming from litigation invoking the central government's liability and obligations acknowledged by the central government that do not meet the conditions for being recorded as provisions for risks;*
- *pension commitments.*

The central government also receives commitments. The same principles governing the scope and recording rules and procedures are used for commitments given and commitments received.

I.2 – Civil Service Pension Commitments

French regulations applying to merchants stipulate that “the enterprise's commitments for pensions, retirement bonuses, compensation and allowances for retirement and other similar benefits for employees and partners shall be disclosed in the notes. Enterprises may also decide to report an amount corresponding to some or all of these commitments in the form of a provision on the balance sheet” (Article L 123-13 of the Commercial Code). However, in its Recommendation 2003 R 01 on the accounting treatment and valuation rules for pension commitments, the French National Accounting Council stated its preference for reporting enterprises' commitments on the balance sheet. If the central government's situation were to be assimilated with that of an employer, it would be better to choose the method providing the best information in this case and report the commitment as a liability.

The French National Account Council's Recommendation takes up most of the provisions of IAS 19. These provisions shall come into force in 2005 for the consolidated accounts of listed groups, under the terms of a European Regulation. They stipulate that employers must recognise the commitments representing the retirement benefits that they undertake to pay their employees as a liability. This standard defines three categories of retirement plans: State plans, defined contribution plans and defined benefit plans. Since the Standard applies to enterprises, it does not deal with the State plans in the first category, since these are not the employers' own plans.

The IFAC Public Sector Committee has started discussions on the accounting treatment of social policy obligations. The discussions have focused on the accounting treatment of pensions paid by State plans, but pending the conclusion of these discussions, the issue of civil service pensions has not been dealt with explicitly. More specifically, the accounting treatment of pay-as-you-go retirement plans is still an open question.

Even though many countries have reported pension commitments as a liability (United States, Canada, Australia, New Zealand), Sweden is the only European country to have introduced such a reporting procedure for retirement plans that are the direct responsibility of the central government.

The lack of a standard on State plans and the issue of the existence and nature of commitments arising from such plans raise serious problems for comparisons between countries where such plans are highly developed.

Pending an international position on these issues, this Standard opts for the principle of a disclosure in the notes. It should be noted that future developments could cause a change of position on this point.

This position will be reviewed at the end of 2005.

II – POSITION WITH REGARD TO OTHER ACCOUNTING STANDARDS

This Standard draws its inspiration from the following accounting standards:

- *French Accounting Regulation Committee Regulation 2000-06 of 7 December 2000 on liabilities, which introduced major changes in the requirements for setting aside provisions for risks and liabilities;*
- *French National Accounting Council Recommendation 2003 R 01 and IAS 19 on “employee benefits”;*

- *The recommendations of the French Securities Exchange Commission (COB) suggesting models for disclosures in the notes on commitments incurred by enterprises in the private sector;*
- *banking practices via the restitution models suggested by the French Plan comptable for credit institutions;*
- *comparative law.*

Furthermore, the probability assessment of the occurrence of a risk or the conditions for enforcing the guarantees given under the commitments covered by this Standard needs to be consistent with general accounting principles.

Therefore:

- *Any disclosure in the notes to the central government's statement of financial position must comply with the principle of "fair presentation" (IAS 1), which sets the criteria for faithful representation and neutrality in disclosures in the notes to the balance sheet.*
- *Any disclosure in the notes to the balance sheet must also comply with the principle of "materiality", which states that information is material if its non-disclosure could influence the decisions of users taken on the basis of the entity's financial statements (Article 120-2 of the French Plan comptable).*

STANDARD 13 - COMMITMENTS TO BE DISCLOSED IN NOTES TO THE FINANCIAL STATEMENTS

STANDARDS

1. SCOPE

COMMITMENTS COVERED BY THE STANDARD

The commitments to be disclosed in the notes to the central government financial statements shall fit the general definition of contingent liabilities, which are:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the central government; or
- a central government obligation vis-à-vis another entity where it is not probable or certain that the obligation will entail an outflow of resources without no equivalent consideration expected in exchange from the other entity.

The contingent liability is thus different from a provision for risks to the extent that, even though the amount and timing are uncertain, a provision represents a probable or certain obligation at the reporting date.

The Standard shall also apply to commitments received, for which the rules and procedures for disclosures in the notes are the same as those for commitments given.

1.2 COMMITMENT CATEGORIES

Central government commitments to be disclosed in the notes fall into three categories:

- The first category covers **commitments given under the terms of clearly defined agreements**. These are financial or contractual commitments given by the central government. These commitments are characterised by contracts or legal documents that are binding on the central government and the other entity. They include:
 - Debt guarantees
 - Guarantees relating to general interest tasks:
 - Insurance schemes;
 - Savings protection guarantees;
 - Exchange rate guarantees given to central banks.
 - Guarantees on liabilities:
 - Disposals and restructuring of government business enterprises;
 - Guarantees related to the implementation of special structures;
 - Other liabilities.
 - Central government financial commitments:
 - Cofinancing contracts;
 - Derivative financial instruments;
 - Other financial commitments.

- The second category concerns **commitments stemming from litigation invoking the central government's liability and obligations acknowledged by the central government** that do not meet the conditions for being recorded as provisions for risks;
- The third category is more specific. It covers the central government's commitments for pensions and similar benefits. The central government's commitment represents the difference between the discounted outflow of pensions benefits to be paid and the discounted inflow of pension contributions to be received, assuming that there are no changes in legislation and on the basis of given economic assumptions. Therefore, the vested future pension benefits of current and former employees shall be measured at the reporting date. The central government's pension commitments are calculated solely on the basis of pensions for civil servants with permanent contracts. The calculation excludes auxiliary receipts and expenditures relating to civil service pensions (contributions, transfers to offset the age curve effect), subsidies and pension expenses currently guaranteed by the central government or likely to be guaranteed by the central government in the medium term. Operating expenses are not included in the calculation either.

2. PROCEDURES FOR DISCLOSURES IN THE NOTES

Central government off-balance sheet commitments shall be deemed material when they provide users with useful information about their potential impact on the central government's statement of financial position at the reporting date.

Valuation of these commitments is not always possible.

There are two disclosure procedures: the recognition of an objective and unequivocal amount for the commitment or else a detailed description of the commitment.

In both cases, the central government commitment to be disclosed in the notes must actually be identified: the obligation must exist at the reporting date even though its enforcement may be conditional. In this case, the obligation is a possible obligation. If the obligation becomes certain at the reporting date, it shall still be reported as an off-balance sheet commitment for the central government as long as the outflow of resources with no consideration expected in exchange from the other entity is improbable or uncertain. If an obligation is certain at the reporting date and the outflow of resources is certain or probable at the date at which the central government draws up its own financial statements, it shall be recognised as a liability in the central government statement of financial position.

Two situations determine the procedures for disclosures in the notes:

- *a commitment amount* shall be disclosed in the notes, when the valuation of the obligation can be derived directly from a legal document or from practices relating to the commitment, or when the obligation cannot be valued at the reporting date, but could be valued at time the financial statements are drawn up on the basis of criteria that are specific to the nature of the commitment.
- *a detailed description* of the commitment and the liability risks must be included in the notes when the valuation of the obligation cannot be made upon recognition or at the reporting date.

If valuation of the commitment is possible, it is preferable to record the amount instead of a description only. However, the description must be provided in addition to and as clarification for information on amounts.

3. VALUATION

The valuation procedure for an off-balance sheet commitment depends on the specific characteristics of the category that it belongs to:

- if a **commitment is made under the terms of an agreement**, the total amount of the guarantee given must be disclosed;
- if a **commitment stems from litigation invoking the central government's liability or from an obligation acknowledged by the central government**, valuation, if possible, shall consist of providing an estimate falling within a range or the maximum amount of the risk;

- if the **commitment relates to pensions**, the valuation shall be made using the *projected unit credit method* to estimate employees' benefits and, more particularly, the retirement benefits under the current central government employees' pension plan. The method measures the present value of pension entitlements to be paid to retired employees and current employees at the valuation date, under the assumption that there are no changes in legislation. The future pensions of current employees are valued on the basis of likely career advancement using the current parameters of the pension plan. These entitlements are pro-rated on the years of service at the valuation date over the years of service upon retirement. The commitments calculated only concern individuals present at the reference date (future hires are not included in the calculation). Similarly the career advancement of current employees is taken into account. Retirement dates are calculated using the retirement rates observed at the valuation date. The indices and benefit levels used to calculate future pension benefits are the ones observed at the valuation date, adjusted to account for the increase in average wages. The discount rate applied is the yield on long-term government bonds.

In any event, the calculations should be backed up by precise disclosures about the valuation procedure, the assumptions made and the scope of obligations examined. Any changes in methods must be disclosed. A disclosure should also be made to explain variations in amounts or risks.

STANDARD 13 - COMMITMENTS TO BE DISCLOSED IN NOTES TO THE FINANCIAL STATEMENTS

EXAMPLES

I - DEBT GUARANTEES

Debt guarantees pertain to two types of debts: guaranteed debt per se and debt managed by the central government.

Guaranteed debt encompasses the obligations of French companies, national enterprises, local governments, public establishments and banking institutions that are guaranteed by the central government. This means that the central government has committed itself to stepping in and making the interest payments or principal payments set out in the loan contract if the original debtor defaults. The guarantee may cover loans or other commitments that institutions and businesses contract in France and in other countries. The conditions for granting central government guarantees are set out in Article 73 of Act 46-2914 of 23 December 1946. The guarantee may be given only under legislative provisions for long, medium or short-term commitments, or for interest and principal payments relating to specific loans.

Example: some organisations (e.g. the French Development Agency) were granted central government loan guarantees for bank borrowing under legislative provisions. The guarantee enables them to obtain better borrowing terms. Under the guarantee, the central government undertakes to pay the banks the outstanding amounts if the borrower, which is the French Development Agency in this case, defaults.

The debt managed by the central government is the debt from the former specific Post Office and Telecommunications budget, which was abolished by Act 90-568 of 2 July 1990.

These guarantees are tracked in the accounting system under class 8. There are accounts for each category of borrowers and these accounts are subdivided by organisations or local governments. The accounting system follows double-entry bookkeeping rules.

II - GUARANTEES RELATING TO GENERAL INTEREST TASKS

II.1 - Insurance Schemes

CCR (caisse centrale de réassurance) is a reinsurance company that is fully owned by the central government.

It provides the central government with excess loss reinsurance coverage for losses exceeding 90% of existing technical reserves for some risks that cannot be insured on the market. These risks are managed by CCR. The central government guarantees apply to a restrictive list of risks: extra hazard transportation risks, nuclear risks, natural disasters, bombings and acts of terrorism.

COFACE (compagnie française d'assurance pour le commerce extérieur)

The central government guarantees the cash position of COFACE each year. As part of the procedures to promote exports, this company offers guarantees on behalf of the central government for risks that cannot be insured on the market. A COFACE guarantee may consist, for example, of covering an exporter or an exporter's bank against the risk of non-repayment of an export credit, but it may also cover political risks and risks related to fluctuations in the exchange rates for the currencies used to invoice exports. The exchange rate coverage protects French exporters against the risk of variations in the exchange rate of a currency between the time when they bid on a foreign contract and the time when they receive the

payments arising from the contract. COFACE therefore assumes the exchange rate risk, along with the risk of not signing a trade contract.

II.2 - Savings Protection Guarantees

Savings Funds

This central government guarantee protects savers. The procedures are different for the different organisations and savings products concerned.

Funds deposited on passbook accounts with the Caisses d'Épargne banks are centralised with the Caisse des Dépôts et Consignations and are guaranteed by the central government.

Furthermore, all of the activities of the Caisse Nationale d'Épargne are backed up by a central government guarantee, under the terms of France's Monetary and Financial Code.

The law stipulates that the central government guarantee shall cover repayment of principal, interest and extra remuneration paid on deposits in People's Savings Scheme passbook accounts.

The central government only steps in the event of a default by the reserve funds that savings organisations have set up for each type of financial product.

Homebuyers' Savings Plans

The central government pays a bonus to savers with homebuyers' savings accounts.

II.3 - Exchange Rate Guarantees Given to Central Banks

These guarantees cover foreign exchange transactions involving deposits taken from the central banks of West African States and the Central Bank of Central African States and the Central Bank of the Comoros. The guarantees also apply to deposits with the Banque de France.

III – LITIGATION INVOKING THE CENTRAL GOVERNMENT'S LIABILITY

In the course of its activities as an employer, property owner, operator, etc., the central government may be sued. It must analyse the risk of being found liable by the courts and incurring the related outflow of resources.

Depending on the progress of litigation invoking the central government's liability and the knowledge of the liability at issue, a provision for risks should be recognised if necessary and an explanation should be given in the notes.

IV – LIABILITY GUARANTEES

IV.1 - Disposals and Restructuring of Government Business Enterprises

When an enterprise is sold, a liability guarantee is established to protect the buyer against potential risks that could jeopardise the soundness of its investment decision. The buyer may ask the vendor for a liability guarantee in order to limit this risk.

As a general rule, the buyer and the buyer's advisers cannot legitimately examine all elements of the enterprise acquired. Therefore, the buyer asks the vendor to make some statements that constitute commitments. If, following the sale, one of the statements turns out to be untrue and leads to a financial or business loss for the buyer, the buyer may ask for compensation under the liability guarantee. The guarantee covers the buyer for occurrences triggered by events taking place before the sale of the enterprise. It should also be noted that the term "liability" guarantee does not refer merely to

“liabilities” recognised on the balance sheet. The liability guarantee may also be invoked for a shortfall in assets or for assets that turn out to be in a worse state or of less value than thought at the time of the sale (improperly valued property holdings, obsolete inventories, etc.)

Thus when a given enterprise is sold to a private sector investor (privatisations, etc.), the central government may give guarantees in the form of future reductions in the selling price if, for example, the value of the buildings belonging to the enterprise sold turned out to be lower than the estimated value at the time of the sale.

IV.2 – Guarantees Provided to Special Structures

These guarantees are the ones provided to structures called “special-purpose entities”, which are created especially to manage a transaction or a group of similar transactions on behalf of the central government. The activities of these entities are carried out with the assets, goods and services, or capital provided to them.

IV.3 Other Liabilities

These are guarantees for specific purposes or beneficiaries:

- *voluntary winding up of enterprises: e.g. the development enterprises Centrest, Lordex and Picardex;*
- *recapitalisation transactions: e.g. the transaction for the enterprise Compagnie-BTP.*

V - CENTRAL GOVERNMENT FINANCIAL COMMITMENTS

V.1 – Cofinancing Contracts

These are commitments to other entities to finance central government operations under national agreements, such as the planning contracts between the central government and regional governments, and under international agreements and, more specifically, the agreements on financing the European Union’s own resources.

V.2 - Financial Instruments

These are the commitments relating to derivative financial instruments such as interest rate swaps (see Standard 11 on financial debt and derivative financial instruments).

V.2 – Other financial commitments

These are budgetary commitments (use of commitment authorisations enacted in the budget) relating to transactions which don’t give rise to a service rendered (for example, supplies or goods ordered without any delivery).

GLOSSARY

GLOSSARY

Active market

Market in which the items traded are homogenous, willing buyers and sellers can normally be found at any time and prices are available to the public.

Assets

An asset is a balance sheet item that has a positive economic value for the central government, meaning a resource controlled by the government as a result of past events that is expected to produce economic benefits in the future. The future economic benefits for the government mean either cash flowing to the government from the use of the asset or the potential production of services expected from the use of the asset for the benefit of the government or other entities, in keeping with its tasks or purpose.

In the central government's separate financial statements, control over the resource is to be understood as direct control, meaning direct control of the asset by entities within the central government structure. Therefore, assets controlled by entities that are incorporated as separate legal entities under the control of the central government are not tracked as such in the central government's separate financial statements.

Beneficiary of central government transfers

Categories stipulated in Article 5 of the Constitutional bylaw.

The end beneficiaries of specific public policy measures or systems in the case of transfers made directly by the central government and in the case of indirect transfers made through redistribution bodies.

There are four categories of beneficiaries:

- households, which are individuals or groups of individuals considered as consumers;
- enterprises, which are production units for goods and services, regardless of their legal structure, as long as the sales of their goods and services cover more than 50% of their production costs. This includes farm and non-farm sole proprietorships, financial and non-financial corporations in the public and private sectors, national public establishments in industry and trade and all other entities that meet the sales revenue criterion mentioned above.
- local and regional authorities, which are local and regional authorities per se, meaning *communes*, *départements*, regions and their affiliated or associated public establishments, along with public establishments with territorial responsibilities;
- other entities, which are entities incorporated under public law, private law or international law that do not belong to the other categories defined above.

Carrying amount

Amount at which an asset is recognised in the financial statements after deducting accumulated depreciation and impairment losses.

Central government equity investments

Rights that the central government holds in other entities, which may or may not be represented by equity instruments and which create lasting links with the other entities. The rights may stem from:

- ownership of shares in the entities concerned or,
- the legal status of the entities concerned, or
- central government control (as defined in the standard) over these entities.

Central government financial assets

A group of fixed assets that includes equity investments and the related claims, along with loans and advances.

Central government financial revenues

Revenues derived from financial assets, cash, financial debts and derivative financial instruments. This does not include foreign exchange gains on transactions other than those related to central government financing and its cash position.

Central government intervention expenses

Payments that the central government makes as part of its economic and social regulation role. These include transfers and expenses arising from the enforcement of central government guarantees.

Central government policy operators

Entities controlled by the central government that carry out public service tasks under conditions that have been rigorously set by the central government.

Central government policy operators are active in the non-market sphere. Some of them manage intervention programmes.

The following criteria are used to classify a controlled entity in the category of central government policy operators:

- non-market activity financed mostly by the central government;
- tasks and targets set by the central government;
- activities closely supervised by the central government.

The legal status of central government policy operators varies. They may be public establishments, associations, public interest groupings or any other form of entity.

Central government policy operators do not choose the direction of their actions. They rarely determine their own targets or intervention procedures, which are often set by regulations. Their autonomy is often limited to implementing the resources allocated to them.

Central government staff costs

Compensation of employees in cash and sometimes in kind for their labour, along with the expenses related to this compensation.

Contingent liabilities

Potential central government obligations vis-à-vis other entities that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the central government; or central government obligations that

are not likely or certain to give rise to outflows of resources with no equivalent consideration expected in exchange from the other entities.

Control of an entity

The central government's power to govern the operating and financial activities of another entity so as to benefit from and/or bear the risks of such activities.

Control of a tangible asset

The central government's power to govern the service potential and/or future economic benefits derived from the use of the asset. Furthermore, the fact that the central government bears the risks and expenses incurred in holding the asset shall also constitute a presumption of control.

Current assets

Assets that, because of their purpose or nature, are not intended for long-term use in the course of the central government's activity.

Current replacement cost

The cost the central government would incur to acquire the asset at the reporting date.

Debt

A certain liability with precisely defined amount and maturity date (French Plan comptable, Article 212-2).

Depreciable amount

Gross value of an asset less its residual value.

Depreciable assets

Assets with a useful life for the entity that can be determined, meaning a useful life that is limited in time and measurable.

Depreciated replacement cost

Cost to be paid to replace the gross service potential of the asset. The cost is depreciated in line with the level of use of the asset.

Depreciation

Systematic allocation of the depreciable amount of an asset over its useful life.

Depreciation schedule

A representation of the allocation of the depreciable amount of the asset over time as the expected economic benefits or service potential are consumed through the use that is likely to be made of it.

Expenses

Decreases in assets or increases in liabilities that have no causal link to the arrival of a new asset or a decrease in liabilities. Expenses correspond either to the consumption of resources in the production of goods or services, or to an obligation to make an irrevocable payment to another entity that has no direct counterpart in the financial statements.

Expenses for the use of non-specialised buildings

Annual measurement of service potential utilisation based on the market value for buildings with a very long useful life that cannot be determined precisely.

Fair value

Amount for which an asset could be exchanged or a liability extinguished between knowledgeable, willing parties in an arm's length transaction.

Finance lease

A lease that transfers substantially all of the risks and rewards incident to ownership of the asset to the lessee. Title may or may not eventually be transferred (IAS 17).

Financial debt

Debts arising as a result of a financing decision on the part of the central government. The counterpart to this debt are either funds for financing the central government that are redeemable in the future and give rise to remuneration or the counterpart is an asset that the debt is intended to finance.

Financial expenses

Expenses arising from financial debts, derivative financial instruments, cash position and financial fixed assets. They do not include bank service charges, penalties for late payments or interest and exchange rate losses on transactions other than those related to financing and cash position.

Fixed assets

Assets intended for long-term use in the course of the central government's activity.

Gross value

Value of an asset on initial recognition or after revaluation.

Impairment loss

Loss of future economic benefits or service potential from an asset, on top of normal depreciation. Impairment of an asset occurs when the recoverable amount of an asset is lower than the net carrying amount.

Intangible Assets

Non-monetary assets with no physical substance held either to produce or provide goods and services, or to be rented to others, or for administrative purposes, and expected to be used over more than one period.

Intervention revenues

Revenues received with no equivalent exchange for the other party.

Inventories

Central government assets:

- in the form of raw materials or supplies to be consumed in a production process;

- in the form of raw materials or supplies to be consumed in the rendering of services;
- held for sale or distribution in the ordinary course of central government activities; or
- in the process of production for sale or distribution.

Inventory value

According to paragraph 5 of Article 7 of the Order of 29 November 1983, the inventory value is equal to the recoverable amount²⁰. However, when the inventory value of a non-financial asset is not deemed to be substantially lower than its net carrying amount, the latter is recognised as the inventory value.

Liabilities

Obligations towards other entities recognised on the reporting date, which are likely or certain to entail outflows of resources to the said entities without anything being expected in exchange from these entities after the reporting date.

Loans and advances granted by the central government

Funds paid to other entities under contract provisions by which the central government undertakes to transfer the use of means of payment to natural and legal persons for a certain period.

Loans are granted for a term of more than 4 years and advances are granted for a term of 2 years, which can be renewed once with explicit authorisation.

Net selling price

The amount that could be obtained at the reporting date for the sale of the asset in an arm's length transaction, less disposal costs (French Plan comptable 322-1). This is the same concept of the "net selling price" found in IAS 36 and in the draft IPSAS on asset impairment.

Operating expenses

Expenses arising from the central government's ordinary activities. These include direct operating expenses and indirect operating expenses (subsidies for public service expenses).

Operating revenues

Revenues arising from the central government's ordinary activities.

Other liabilities

Liabilities with uncertain timing and a precisely defined amount.

Provisions for risks and liabilities

Liabilities with uncertain amounts and timing (French Plan comptable, Article 212-3).

Recoverable amount

The greater of the net selling price or the value in use (Article 322-1 of the French Plan comptable). Equivalent to the "recoverable amount" notion used in IAS 36 and in the IFAC proposal for a standard on "impairment of assets".

²⁰ The decree defines the recoverable amount as an estimate made on the basis of the market and the utility of the asset for the enterprise.

Residual amount

Net amount that the central government expects to obtain for an asset after the end of its useful life, less expected disposal costs.

Revenues

Increases in assets or a decrease in liabilities that are not offset by giving rise to an outflow of an asset or an increase in liabilities. In the case of the central government, there is a distinction made between sovereign revenues, which constitute its main source of funds, and revenues that are the direct counterpart of sales of goods and services or the use by other entities of assets generating royalties, interest or dividends. Only revenues in the second category can be matched to expenses.

Sovereign revenues

Revenues arising from the exercise of the central government's sovereign powers. These are revenues from other parties that do not directly receive a resource of equivalent value in exchange.

Subsidies for public service expenses

Category stipulated in Article 5 of the Constitutional bylaw.

Payments to central government policy operators to cover their operating expenses arising from the execution of public policies that are the direct responsibility of the central government, but entrusted to such operators and carried out by them under government supervision. The exchange for these payments is the performance of the tasks that the central government entrusts to these operators.

Tangible Assets

Identifiable tangible assets that are usually identified in a physical inventory, expected to be used over more than one period and embody a positive economic value for the entity using them. In the case of the central government, this value is represented by the expected future economic benefits or service potential from the use of the asset.

Transfers

Categories stipulated in Article 5 of the Constitutional bylaw.

Payments with no equivalent material counterpart recognised in the financial statements in exchange, made directly by central government departments or indirectly through other entities, which are most often government policy operators, as part of their redistribution role to one or more beneficiaries in the strictly designated categories (households, enterprises, local and regional authorities, other entities).

Value in use

Value of the future economic benefits expected from the use and disposal of an asset. It is calculated on the basis of the estimated future economic benefits. As a general rule, it is determined on the basis of expected net cash flows. If such flows are not meaningful for the entity, other criteria may be used to value the expected future benefits (French Plan comptable, Article 322-1). When the central government owns assets that do not generate cash flows, the criterion used is the expected service potential.

This is the same concept of the "value in use" found in IAS 36 and in the draft IPSAS on asset impairment.