

**Opinion n° 2015-06
of 3 July 2015
relating to Central Government Accounting Standard 10
“Cash Components”**

On 3 July 2015 the Public Sector Accounting Standards Council adopted this Opinion relating to Central Government Accounting Standard 10 “Cash Components”¹.

This Standard clarifies the definition of assets and liabilities composing the cash position of Central Government. This new version of the Standard does not introduce changes in recognition and measurement principles.

1. Definition of cash components

The previous version of Standard 10 identified four separate items of cash assets:

- bank and cash balances;
- bills receivable or payable in the course of collection, and discounted bills;
- other cash components;
- cash equivalents.

The Public Sector Accounting Standards Council proposes the replacement of the last two items, which are similar in definition, by:

- short-term investments as defined by the Monetary and Financial Code,
- other cash components, which consist mainly of unsecured deposits and receivables arising from reverse repurchase agreements.

¹ The requirements in this Opinion and the proposed amendments are based on the Central Government Accounting Standards Manual approved by the Order of 19 March 2015 amending accrual accounting rules for Central Government.

This new definition leads to the elimination of the item “cash equivalents” and the introduction of the item “short-term investments”. It has no effect on recognition or measurement requirements for these cash items.

2. Presentation of the statement of net assets/equity

As a result of the elimination of the item “cash equivalents”, the Public Sector Accounting Standards Council proposes an amendment to the statement of net assets/equity included in Central Government Accounting Standard 1 Financial Statements. The line “cash equivalents” included in the sub-total cash (assets) is therefore deleted.

Accordingly, the line “short-term investments” is added and included in the sub-total cash (assets) of the same statement.

3. Presentation of Central Government’s cash position

The recognition of Treasury correspondents’ deposits as a cash liability means that the Central Government’s net cash position in its financial statements is structurally negative and is presented as such in the notes and the cash flow statement.

This presentation reflects a specific feature of Central Government which is consolidated cash management and the pooling of public funds (or regulated private funds) on a single Treasury deposit account².

4. Qualification of the change

This Opinion does not change the accounting treatment of cash components for Central Government.

These editorial amendments are not within the scope of Central Government Accounting Standard 14 “Changes in Accounting Policy, Changes in Accounting Estimates and the Correction of Errors”.

² In accordance with the provisions of Articles 25 and 26 of the Constitutional Bylaw for Budget Acts (LOLF) of 1 August 2001 and Article 47 of the Order of 7 November 2012 on budgetary management and public accounting.

5. Effective date

The Public Sector Accounting Standards Council proposes immediate application of this Opinion.

**STANDARD 10
CASH POSITION
COMPONENTS**

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STANDARD 10 CASH POSITION COMPONENTS

Introduction

This Standard defines the assets and liabilities composing the cash position of Central Government and identifies their specific features in relation to consolidated cash management and the pooling of public funds with the Treasury¹.

This Standard does not apply to revenue and expense arising from cash transactions which are dealt with by Standard 2 on expenses and Standard 4 on operating, intervention and financial revenue.

I. SCOPE

This Standard applies to the assets and liabilities composing the cash position of Central Government.

The assets included in the cash position of Central Government are:

- > cash on hand, including bank and cash balances;
- > the net amount of bills receivable and bills payable in the course of collection, and discounted bills;
- > short-term investments, financial securities as defined by the Monetary and Financial Code²;
- > other cash assets, instruments convertible to cash at short notice and which are subject to an insignificant risk of changes in value.

Related receivables and payables are included with each of these items of assets.

The Central Government's cash liabilities include funds which are repayable on demand or with a short maturity. The following items are included:

- > deposits repayable on demand or term deposits of Treasury correspondents,
- > other cash liabilities including short-term borrowings.

Related receivables and payables are included with each of these items of liabilities.

Certain of these cash components are specific to Central Government and others are not.

¹ In accordance with the provisions of Articles 25 and 26 of the Constitutional Bylaw for Budget Acts (LOLF) of 1 August 2001 and Article 47 the Order of 7 November 2012 on budgetary management and public accounting.

² Articles L.211-1 and L.211-2 of the Monetary and Financial Code.

I.1. Specific components: Treasury correspondents' deposits

Treasury correspondents³ are legal entities or natural persons which deposit funds with the Treasury, either voluntarily or in application of a law, regulation or agreement, or are authorised to receive and disburse funds via Central Government Treasury accountants. Treasury correspondents' deposits are a component of Central Government's cash on hand that belongs to a third party. Treasury correspondents may demand repayment at any time. They are not however allowed to be overdrawn⁴.

The Central Government's net cash position in its financial statements is structurally negative due to the presentation of Treasury correspondents' deposits as a cash liability. This presentation reflects a specific feature of Central Government which is consolidated cash management and the pooling of public funds (or regulated private funds) on a single Treasury deposit account⁵.

Funds are allocated to certain Treasury correspondents in their capacity as intermediaries in charge of managing the "investments for the future" scheme initiated by the Budget Act⁶. These allocations may be usable or not. They are outside the scope of the Central Government Standard on Cash Components.

I.2. Non-specific components

Non-specific components include bank and cash balances, bills receivable or payable in the course of collection, and discounted bills, short-term investments, term deposits, short term bank loans payable and receivable and repurchase transactions. The Standard classifies Central Government cash items as cash assets or liabilities as applicable.

I.2.1. Cash on hand

Cash on hand consists of all instruments that are by nature immediately convertible to cash for their face amount.

It includes:

- > bank and cash balances;
- > the amount of bills receivable the course of collection and discounted bills, presented as assets in the statement of net assets/equity after the offsetting with bills payable.

³ Article 141 of Order n° 2012-1246 of 7 November 2012 on budgetary management and public accounting requirements.

⁴ Article 143 of Order n° 2012-1246 of 7 November 2012 on budgetary management and public accounting requirements.

⁵ In accordance with the provisions of Articles 25 and 26 of the Constitutional Bylaw for Budget Acts (LOLF) of 1 August 2001 and Article 47 the Order of 7 November 2012 on budgetary management and public accounting requirements.

⁶ Additional Budget Act n° 2010-237 of 9 March 2010.

I.2.2. Items relating to Central Government cash management

The Treasury's current account with the Bank of France must show a credit balance at the end of each day. The objective of Central Government cash management is to limit the funds in this balance and invest any temporary surpluses for the best return, or to borrow as required. To meet these objectives, according to the situation, Central Government carries out the following transactions:

- > very short-term unsecured lending or borrowing on the interbank market;
- > unsecured short and medium term cash deposits (without delivering securities) with certain European States or supranational organisations;
- > acquisition of negotiable debt securities issued by public establishments;
- > repurchase and reverse repurchase transactions⁷;
- > the use of available credit lines to cover the Treasury's current account position with the Bank of France or of other temporary cash facilities for specific schemes⁸.

II. MEASUREMENT

II.2. Measurement on initial recognition

Cash assets and liabilities are measured at acquisition cost excluding transaction costs. In the case of cash on hand, cost is equal to the face value.

Transaction costs relating to short-term investments are recognised as an expense. This is because the latter have in theory a short life and these costs do not add value to the investment to which they relate.

II.3. Measurement at the reporting date

Cash held in foreign currency at the reporting date is converted into euros using the latest spot exchange rate. Foreign exchange gains and losses are recognised in the surplus or deficit for the period.

A clarification of the notion of inventory value used for measuring short-term investments at the reporting date is appropriate. Inventory value is the current value, corresponding to market value (or if market value is not available at expected sales value). Inventory value is compared to acquisition cost. This comparison gives rise to unrealised profits and losses. Unrealised profits on short term investments are not recognised. However, unrealised losses are recognised as impairment without setting them off against unrealised profits.

⁷ A reverse 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 respectively the securities at an agreed price and on an agreed date.

⁸ This applies in particular to credit lines with the mortgage bank the Crédit Foncier de France.

III. PRESENTATION OF THE FINANCIAL STATEMENTS

In accordance with Standard 1 “Financial Statements”, the components of the Central Government’s cash position are shown as separate “Cash” asset and liability line items in the statement of net assets/equity.

The asset line item “Cash” may however be negative as it is the net amount of bills receivable and bills payable in the course of collection, and discounted bills.

The cash flow statement presents changes in the Central Government’s cash assets and liabilities for the period.

IV. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

IV.1. Position as compared to the French General Chart of Accounts

The recognition and measurement requirements for cash in this Standard comply with Regulation 2014-03 of the French General Chart of Accounts.

However, as stated in the objectives of the Standard set out above, the definitions, accounting and presentation principles for cash components have been adapted to suit the specific characteristics of Central Government.

IV.2. Position compared to international accounting standards

IPSAS⁹ and IFRS¹⁰ identify cash components in a restrictive manner. Cash includes cash on hand, demand deposits and cash equivalents. Cash equivalents are defined as highly liquid short-term investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. This restrictive approach was not adopted in the Standard.

⁹ IPSAS: International Public Sector Accounting Standards.

¹⁰ IFRS: International Financial Reporting Standards.



STANDARD 10

CASH POSITION COMPONENTS

Requirements

1. SCOPE

This Standard relates to assets and liabilities connected with Central Government's cash transactions. Cash assets and liabilities include sundry related receivables and liabilities.

1.1. Cash components

Cash transactions are transactions 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 on hand, short-term investments and other cash components.

1.1.1.1. Cash on hand

Cash on hand consists of all instruments that are by nature immediately convertible to cash for their face amount.

It includes:

- > bank and cash balances;
- > the amount of bills receivable the course of collection and discounted bills, presented as assets in the statement of net assets/equity after the offsetting with bills payable.

1.1.1.2. Short-term investments

Short-term investments are instruments issued by public or private corporate entities, which confer identical rights for each class of instrument and entitle the holder directly or indirectly to a share in the capital of the issuer or a general claim on the issuer's assets.

They include debt instruments and in particular those issued by public establishments.

1.1.1.3. Other cash components

Other cash components include:

- > receivables for cash deposits on the interbank market and with Eurozone States or supranational organisations.

These deposits are interest-bearing¹ short and medium term transfers of funds made without the delivery of securities.

- > receivables arising from reverse repurchase agreements.

1.1.2. Liabilities

Cash liabilities correspond to funds received which are repayable on demand or at very short notice and may give rise to interest.

1.1.2.1. Treasury correspondents' deposits

Treasury correspondents' deposits comprise demand or term deposits.

1.1.2.2. Other cash components

Other cash liability components include:

- > liabilities for loans on the interbank market and with Eurozone States or supranational organisations. These very short -term transfers of funds are made without the delivery of securities;
- > liabilities arising from the use of credit lines authorised by financial intermediaries with a very short maturity;
- > liabilities arising from repurchase agreements.

1.2. Sundry receivables and liabilities

Sundry receivables and liabilities comprise margin calls used to secure repurchase agreement transactions. Margin calls are liabilities or receivables because they are repayable by Central Government or the counterparty.

2. RECOGNITION AND MEASUREMENT

2.1. Cash components

2.1.1. Recognition criteria

2.1.1.1. Cash on hand

Cash on hand is recognised in the period in which it is acquired:

- > cheques, direct debits (receivable), interbank payment orders ("TIP") and other bank bills are recognised on presentation for payment;
- > bank transfers received are recognised when credited to the bank account;
- > automatic credits are recognised when recorded in the bank account;
- > payments received by bank card are recognised on the transaction date, or if this information is unavailable, at the date the transaction goes through the bank;

¹ In certain exceptional cases, the interest rate used to remunerate the lender may be nil or negative.

- > payments in the course of collection are recognised when the payment instrument is issued (cheques, bank transfers);
- > automatic debits are recognised when recorded in the bank account.

2.1.1.2. Short-term investments

Short-term investments are recognised in the period in which they are acquired.

2.1.1.3. Other cash components

Other cash components are recognised in the period in which the corresponding receivable arises.

Therefore, receivables arising from unsecured loans and reverse repurchase agreements are recognised when the funds are transferred.

2.1.1.4. Cash liabilities

Cash liabilities are recognised in the period in which the funds are received.

Liabilities arising from Treasury correspondents' deposits are recognised when the transactions are posted to their accounts or when funds are received or disbursed via Treasury accountants.

Liabilities arising from unsecured loans, the use of credit lines and repurchase agreements are recognised when the funds are received.

2.1.2. Measurement

2.1.2.1. Measurement on initial recognition

Cash assets and liabilities are measured at acquisition cost excluding transaction costs.

2.1.2.2. Measurement at the reporting date

Cash held in foreign currency at the reporting date is converted into euros using the latest spot exchange rate. Foreign exchange gains and losses are recognised in the surplus or deficit for the period.

A comparison of the inventory value of short-term investments to entry value gives rise to unrealised gains and losses. Unrealised losses are recognized as impairment losses which are not offset against unrealised gains.

Accrued interest not yet due on cash and related assets and liabilities is recognised at the reporting date.

2.2. Sundry receivables and liabilities

Receivables and liabilities arising from margin calls related to repurchase agreements are recognised for the amount of the variation in the value of the securities received as collateral.

3. DISCLOSURES IN THE NOTES

The notes present the main components of Central Government's cash position, and specifically disclose Treasury correspondents' deposits.

Information is provided on changes in the cash position over two periods, and where applicable on the impairment of cash assets.

Information is also provided on discounted bills not yet due and on the amount of available credit lines.