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CNOCP
Conseil de normalisation des comptes publics

Opinion n° 2015-07
of 3 July 2015
relating to Central Government Accounting Standard 11 "Financial debts and derivative financial instruments"

On 3 July 2015, the Public Sector Accounting Standards Council adopted this Opinion relating to Central Government Accounting Standard 11 "Financial debts and derivative financial instruments"[1].

This new version of Standard 11 provides a clarification of the accounting requirements for financial debts and derivative financial instruments without introducing changes in recognition and measurement principles.

1. Main changes to Standard 11 "Financial debts and derivative financial instruments"

Standard 11 included detailed guidance on the classification and recognition of derivative financial instruments based on the financial instrument classification requirements for the individual accounts of credit institutions. The new version of the Standard has been considerably simplified by trimming the presentation of the transactions not undertaken by Central Government.

[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.

The Standard also clarifies requirements for the timing of financial debt recognition. The recognising event in the financial statements of the period of issue of financial debt has been clarified as the date of receipt of the related funds. Lastly, the Standard now clarifies that premiums and discounts relating to financial debts are prepaid expense or revenue.

2. Deletion of the illustrative examples in Standard 1 "Financial Statements"

The section "Examples" of Standard 1 "Financial Statements" includes five explanatory schedules presenting debt. These schedules are entitled: "Statement of changes in borrowing", "Increases", "Decreases", "Statement of changes in premium and discount" and "Maturity table". Standard 11 requires this information to be disclosed in the notes. Consequently, the Public Sector Accounting Standards Council proposes the deletion of the above-mentioned schedules from the illustrative examples of Standard 1"Financial Statements".

3. Qualification of the change

This Opinion does not does not modify in substance the accounting requirements for financial debts and derivative financial instruments, other than those for the presentation of premiums and discounts which qualify as a change in accounting policy. The other 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".

4. Effective date

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

STANDARD 11
FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS

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STANDARD 11
FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS

Introduction

I. SCOPE

I.1. Scope

The Standard prescribes the accounting treatment for the sources of funding used by Central Government in the course of its activity. These sources, as described in the Standard, are authorised by the Constitutional Bylaw on Budget Acts of the 1 August 2001[1] (LOLF) and the annual Budget Acts. The main sources of funding include debt securities, derivative financial instruments and loans and financial instruments assumed for third parties.

The Standard covers derivative financial instruments used either for hedging transactions or as part of Central Government's global risk management policy.

I.2. Scope exclusions

Non-negotiable securities

The Standard does not deal specifically with loans issued as non-negotiable securities which are of an immaterial amount and are being gradually phased out.

Stripped government bonds (OATs)

OATs which are financial debts may be stripped and reconstituted as zero coupon certificates as part of transactions on the secondary market. The stripping and reconstitution transactions do not constitute a new issue.

These transactions are not addressed in the Standard as they are not undertaken directly by Central Government but by an external economic interest grouping.

Financial liabilities arising from contracts

The scope of the Standard excludes financial liabilities arising from finance leases and contracts for the provision of public services[2].

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[1] Article 34 of the Constitutional Bylaw on Budget Acts (LOLF).

[2] The requirements of Standard 18 "Contracts for the Provision of Public Services" apply to these last contracts.

Other financial debts

The scope of the Standard excludes Treasury bills issued in favour of international organisations (BTI). The latter constitute commitments for which the funding is actually provided by the Bank of France (commitments in favour of the International Monetary Fund) or will be liquidated subsequently (organisations other than the IMF). They are not interest bearing and are not loans. These transactions are within the scope of Standard 12 “Non-Financial Liabilities”.

The Standard does not apply to cash liabilities either. The latter are within the scope of Central Government Accounting Standard 10 “Cash Components”.

II. DEFINITIONS

II.1. Loans issued as negotiable securities

Negotiable securities issued by Central Government may take different forms, such as Treasury bills (BTF[3]), Treasury notes (BTAN[4]) or Fungible Treasury bonds (OAT).

Fungible Treasury bonds (OAT[5]) are the Central Government’s medium and long-term debt instruments. They are fungible securities issued with a maturity of 2 to 50 years. These bonds may bear either a fixed or variable interest rate.

OATs, BTANs and BTFs are usually issued via auction. Settlement and delivery of the securities take place after the auction.

In certain specific market conditions, certain loans (such as BTFs which have the shortest maturities) may be issued with negative interest rates. In this case, they give rise to interest income which is recognised as financial revenue.

II.2. Derivative financial instruments

The Standard prescribes the accounting treatment for derivative financial instruments. It does not include a list of derivative instruments but refers instead to the instruments set out in Article D211-1-A in the regulation section of the Monetary and Financial Code.

Derivative financial instruments are mostly used for hedging transactions.

II.3. Hedging transactions

A hedging transaction consists of associating a hedged item and a hedging instrument in order to reduce the risk that the hedged exposure will have unfavourable effects on the surplus or deficit or future cash flows of Central Government.

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3 BTF (bons du Trésor à taux fixe et à intérêts précomptés): Fixed-rate discount Treasury bills.

4 BTAN (bons du Trésor à intérêts annuels): Treasury notes with annual interest.

5 OAT bond issues are subject to a reopening mechanism which enables a series of issues to be made for a single loan. The securities share the same characteristics in terms of coupon and maturity but their issue price varies according to market conditions so that they are issued at a premium or a discount. After issue, the securities are fungible and therefore fully interchangeable.

Interest-rate and currency swaps which have the purpose of hedging the global interest rate or currency risk on assets, liabilities or off-balance sheet commitments and are not already designated in a hedging relationship may form part of the hedge of the global interest rate or currency position. At each reporting date the effectiveness of this category of hedge in reducing the global interest rate or currency risk must be demonstrated.

Central Government may implement an average debt maturity management strategy designed to reduce average interest expense over a long period, in exchange for an increase in the average short-term variability of that interest expense. This strategy is viewed as a global interest rate hedging and management strategy for Central Government debt. It is conditional upon:

- the Minister of Finance's decision, which may be delegated, to implement a global interest-rate risk management strategy;
- the change in average debt maturity leads to a reduction in the sensitivity to interest-rate risk;
- the effectiveness of the hedging policy is demonstrated.

If derivative financial instruments are not part of a hedging relationship, they are considered to be an "open position".

III. MEASUREMENT ON INITIAL RECOGNITION AND AT THE REPORTING DATE

III.1. General principle

To qualify for recognition, financial debt must meet the general criteria for recognition of a liability.

The Standard defines the recognition criteria for financial debts and the timing of recognition. In the case of a loan, recognition takes place when the funds are actually received and not on the date of issue of the loan.

It is therefore appropriate to distinguish two stages in Central Government's commitment during the loan issue process:

- between the date of issue of a debt instrument and the receipt of funds (for example when the issue takes place by auction, between the publication of the outcome of the auction and the settlement-delivery of the securities), Central Government is committed to delivering the securities in exchange for the receipt of the funds. This commitment is disclosed in the notes;
- on receipt of the funds, Central Government is committed to repaying the cash on loan: this is the obligating event which gives rise to recognition of the debt.

Where Central Government redeems its own securities, the transaction is recognised on receipt of the securities.

III.2. Financial debts in euros

General principle

The Standard requires financial debts to be recognised at redemption value which is usually their face value. Measurement at redemption value enables the amount payable by the Central Government on maturity of the debts to be identified at all times.

In order to correctly reflect the cost of financing, the Standard requires all borrowing costs and revenue not included in the coupon (premium, discount, issuance costs)[6] to be spread over the term of the loan on an actuarial basis. However the allocation may be made on a straight-line basis if the effect on surplus or deficit is not significantly different to that obtained by using an actuarial basis.

Loans issued at a premium

Certain loans, especially OAT Treasury bonds, may be issued at a premium or a discount according to market conditions. These premiums or discounts are a component of borrowing costs which they decrease or increase. They give rise to revenue or expense, as the case may be, which is allocated over the term of the loan.

Loans taken over from third parties

When Central Government takes over loans originally taken out by third parties, it assumes the latter's contractual obligations in respect of the debt up until maturity. Consequently, the Standard requires the loan to be recognised at redemption value rather than fair value on the date it is taken over.

III.3. Financial debts in foreign currency

Loans are recognised on the date of receipt of the funds at face value converted at the spot rate applicable on that date. As a simplification, exchange differences are recognised in surplus or deficit at the reporting date.

The recognition of unrealised exchange gains or losses in surplus or deficit at the reporting date, using the recognition model for cash held in foreign currency, is not contrary to the principle of prudence, and enables loans to be presented consistently at redemption value. In addition it simplifies hedge accounting for the foreign currency risk related to the debt.

Exchange gains and losses arising from loans in foreign currency are offset against those arising from the associated currency risk hedging transactions where applicable.

III.4. Derivative financial instruments

In the case of derivative financial instruments, whether they qualify as hedging instruments or not:

- the notional amount of derivatives is not recognized in the balance sheet but an appropriate disclosure is made in the notes;
- margin calls are recognised in the balance sheet;

6 The actuarial allocation may be made using the effective interest rate (EIR). The EIR is the rate that exactly discounts future cash payments and receipts over the life of the loan.

> option premiums, initial cash adjustments and similar items are allocated evenly over the term of the contract to which they relate. The timing of recognition in surplus or deficit is the same for the effects of hedging transactions and of the hedged item.

III.5. Hedging transactions

In a hedging transaction, the offsetting effects of the hedging instrument and the hedged item are matched in surplus or deficit. This principle may have the effect of deferring the recognition of realised gains or losses.

Changes in the value of hedging instruments are not recognised through the balance sheet, unless this treatment enables them to be matched with those of the hedged item.

These principles are applied as follows.

- Recognition of gains or losses associated with the hedging instrument is deferred where:
  - unrealised gains and losses associated with a qualifying hedging instrument are neither recognised in the balance sheet nor surplus or deficit as long as those associated with the hedged item do not affect surplus or deficit;
  - margin calls relating to a qualifying hedging instrument are recognised in a suspense account in the balance sheet as long as the hedged item itself does not affect surplus or deficit.
- The timing of recognition of realised and unrealised losses and gains associated with hedging instruments in surplus or deficit is matched with that of the hedged item :
  - intermediary cash flows relating to the hedging instrument (interest etc.…) are recognised in surplus or deficit when the hedged item is likely to generate this type of revenue or expense during its life cycle;
  - the amount deferred in a suspense account is taken to surplus or deficit over the residual lifespan of the hedged item and matched with the recognition of revenue and expense from this item.

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

IV.1 Position compared to international accounting standards

The Standard requires financial debts to be recognised at redemption value. It differs from IFRSs[7] and IPSASs[8] which require initial recognition of the amount of cash received for a bond on issue and the subsequent adjustment to redemption value by allocation of the discount (or a decrease in premium) over the term of the loan.

The Standard also diverges with respect to the definition of derivative instruments in IFRSs and IPSASs. This is because IFRSs and IPSASs define derivative instruments whereas the Standard refers to the list of these instruments included in the Monetary and Financial Code.

[7] IFRS: International Financial Reporting Standards.

[8] IPSAS: International Public Sector Accounting Standards.

A third difference as compared to international standards relates to the measurement basis for derivative instruments. Measurement at market value, as required by IFRSs and IPSASs, has not been adopted in the Standard.

In the most common case, where derivatives are used in a hedging strategy, the recognition principle requires the hedged transaction and the effect of the hedge to be matched in surplus or deficit. The recognition of a portion of the value of the financial instrument in the balance sheet, in application of the matching principle, has the sole purpose of offsetting the effect of the instrument against the associated risk recognised for the hedged transaction. In this situation, there would be little point in recognising the full value of the derivative instrument, given that hedge management is not generally based on market value. In addition, recognition of the instrument in full could have implications for the measurement of hedged items and the presentation of the effect of the hedge in surplus or deficit. This would also increase the complexity of the accounting treatment and does not appear relevant for the presentation of a hedging relationship. For example, rather than recognising both the hedged portion of a loan and the swap used as a hedging instrument, it appears equally relevant to recognise just the interest accrued on both the swap and the loan.

However, the recognition of exchange differences directly in surplus or deficit is in line with international accounting principles.

IV.2 Position compared to the French General Chart of Accounts

The French General Chart of Accounts (PCG) does not include detailed requirements for financial debts and derivative instruments.

The requirements for loans in the Standard are consistent with those of the PCG.

The Standard diverges from the PCG in respect of the presentation of loan issuance costs. Whilst the latter are classified as the residual component of deferred expenses in the PCG, Standard 11 requires them to be recognised in prepaid expenses. In addition, whilst Standard 11 prescribes the systematic deferral of loan issuance costs, an option is available under the PCG to recognise them immediately as an expense for tax reasons.

This Standard requires exchange differences on debts denominated in foreign currency to be recognised directly in surplus or deficit at the reporting date. This is a departure from the PCG which requires unrealised exchange gains or losses to be recognised in the balance sheet and only unrealised losses to be provided for through surplus or deficit.

STANDARD 11
FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS

REQUIREMENTS

1. SCOPE

Financial debts arise as a result of a funding decision made by Central Government or from the decision to take over a debt from another entity.

Financial debts correspond to:

- the Central Government's funding resources which are interest-bearing and repayable on maturity[1];
- or asset funding;
- a financial expense, in the case of assumed debt.

The Standard relates to funding transactions which include the issue of marketable securities denominated in euros or foreign currency and loans taken over from third parties by Central Government.

Derivative instruments are within the scope of the Standard.

The scope of the Standard therefore includes the following instruments:

- short, medium and long-term debt securities (Treasury bills, Treasury bonds (OAT, OATi…);
- derivative instruments, in particular those used for hedging purposes, including the related margin calls;
- loans and derivative instruments taken over from third parties.

2. DEFINITIONS

2.1. Loans issued

2.1.1. Loans issued as negotiable securities

Negotiable securities are book-entry securities traded on financial markets. They take the form of standardised Treasury bonds (OAT), bills and notes (BTF, BTAN). All securities within a given category have the same characteristics.

[1] In certain exceptional circumstances, the reference rate used for determining the lender's interest income may be nil or negative.

These securities may feature indexed-linked principal or interest payments; they may pay interest at a fixed or floating rate; interest may be prepaid or post-paid; they may be stripped, denominated in foreign currencies; or they may be issued on behalf of the Public Debt Fund, the "Caisse de la Dette Publique (CDP)".

Where the issue reopening technique is used, especially for OAT issues, new issues are made for an existing loan and the price of additional tranches is adjusted according to market conditions, thereby giving rise to a premium or a discount.

The premium (where the issue price of the security is above face value) or discount (where the issue price of the security is below face value) represents the difference, at the date of issue, between the issue price of government securities and their face value which may be indexed.

2.1.2. Loans taken over from third parties by Central Government

Where Central Government takes over loans originally taken out by third parties with credit institutions or investors, it replaces the third party in the contract.

2.2. 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 maturity or up until a given maturity date. The resulting commitments are disclosed in the notes to the Central Government's financial statements.

Derivative financial instruments are defined by Article D.211-1-A of the Monetary and Financial Code as a list of derivatives decided by Order. They include options, futures, swaps, forward rate agreements and all other derivatives related to financial instruments, currency, interest rates, return, financial indices or commodities.

2.3. Hedging transactions

A hedging transaction consists of associating a hedged item and a hedging instrument in order to reduce the risk that the hedged exposure will have unfavourable effects on the surplus or deficit or future cash flows of Central Government.

Hedging covers market risks (interest rate, exchange, raw material prices). The risk may be fully or partly hedged (for a limited period, for an individual risk when the instrument includes several, etc.).

A hedging instrument is a firm or optional derivative instrument, a portion of the latter or a combination of firm and optional derivative instruments irrespective of the underlying. Other financial assets and liabilities qualify as hedging instruments for currency or other risks when their exposure to the hedged risk offsets the exposure of the hedged item.

Subject to the Minister of Finance's decision, which may be delegated, transactions implementing a global risk management strategy qualify as hedging transactions provided Central Government monitors the effectiveness of the instruments in reducing the hedged risk.

As far as the Central Government's average debt maturity management strategy is concerned, its designation as a hedging transaction reflects the policy of hedging the interest-rate risk affecting an item or a group of similar items.

2.4. Open positions

If a derivative financial instrument is not or no longer part of a hedging relationship, it is considered to be an open position.

2.5. Derivative instruments relating to non-financial items

Derivative contracts relating to non-financial items (raw materials for example) which meet the definition of a derivative financial instrument in the Monetary and Financial Code are within the scope of this Standard. Consequently, they may qualify as hedging transactions or open positions.

Derivative contracts relating to non-financial items that do not satisfy the above conditions are treated as purchases and come within the scope of Standard 2, Expenses.

3. MEASUREMENT ON INITIAL RECOGNITION AND AT THE REPORTING DATE

3.1. Financial debts in euros

3.1.1. Recognition criteria

To qualify for recognition in Central Government's accounts, a financial debt must meet the general recognition criteria for a liability, as well as the following in the case of loans:

- the existence of a liability must be certain: the Central Government must have an obligation to make a payment to a third party, and
- it must be possible to measure the debt reliably.

A financial debt is recognised in the financial statements of the period in which the loan was issued or the contract signed and the related funds received, or when the debt was taken over from a third party.

3.1.2. Measurement on initial recognition

3.1.2.1. General principle

Financial debts are recognised at redemption value which is usually their face value.

Transaction costs

Loan issuance costs include expenses and commissions paid to financial intermediaries. They consist mainly of bank commissions charged for setting up the loan or fees paid to outside service providers. These costs are part of the overall cost of financing. They are initially recognised in the balance sheet as prepaid expenses and are allocated to surplus or deficit over the term of the loan to which they relate on an actuarial basis.

Premiums and discounts on issue

Where loans are issued at a price different to their face value, the difference is an issue premium or discount.

Issue premiums and discounts and are prepaid revenue and expenses respectively and are presented as liabilities or assets.

The premium or discount on issue represents a reduction or an increase in financial expense for the issuer. It is allocated to surplus or deficit on an actuarial basis over the term of the loan. This allocation is presented in the same way as loan interest as a component of net financial expense.

Accrued interest on issue

When the issue date is different to the date of payment of the coupon, the amount of the coupon accruing between the annual payment date and the issue date is paid for by the investor. This accrued coupon is recognised as a liability, but it is not an expense for Central Government. It is an advance payment made by the investor which is refunded when the next coupon is paid.

3.1.2.2. Prepaid interest on issue

Where loans include prepaid interest on issue, the difference between the issue price and the face value represents financial expense initially recognised in surplus or deficit[2].

3.1.2.3. Redemption of government securities

On cancellation of a security after redemption, the difference between the redemption price and the face value, indexed where applicable, including the unallocated portion of premium or discount at the redemption date represents expense or revenue.

3.1.2.4. Loans taken over from third parties

Where Central Government takes over a loan from a third party it recognises a debt and financial expense for the redemption value of the loan increased, where appropriate, by any associated items (such as accrued interest on the take-over date).

3.1.2.5. Indexed Treasury bonds(OAT)

Loans with a capital indexation feature are recognised on issue and at the reporting date at their redemption value, which corresponds to their face value adjusted for indexation. Changes in the amount of indexation determined over the life of the securities represent financial expense which is recognized when it occurs. If the index drops, these changes may give rise to financial revenue. Nevertheless, where the redemption value of an indexed loan is guaranteed at par, the amount of the liability cannot be less than 100% of face value.

3.1.3. Measurement at the reporting date

Interest is recognised as an expense. Where interest is capitalised in financial debt, the balancing entry is recognised in annual interest expense.

At each reporting date, interest accrued but not yet due in respect of loans issued, taken out or taken over is recognised in surplus or deficit.

When interest is prepaid on issue, the portion relating to subsequent accounting periods is recognised as prepaid expense at the reporting date and subsequently allocated to those periods accordingly.

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[2] If the interest rate is negative, this difference may represent revenue.

3.1.4. Debt extinguishment

A debt is extinguished when it is redeemed or when the contractual obligation to deliver cash expires. In the latter case, if no consideration is provided in exchange for the expiry of the obligation, revenue is recognised.

Unallocated issue premiums relating to the redeemed portion of the loan are taken to surplus or deficit for the period.

3.2. Financial debts in foreign currency

3.2.1. Measurement on initial recognition

Loans are recognised on the date of receipt of the funds at face value converted at the spot rate applicable on that date.

3.2.2. Measurement at the reporting date

Principal

At each reporting date, loans denominated in foreign currencies are converted at the spot rate applicable on the reporting date or on the closest possible date before the reporting date.

Exchange differences, including both unrealised gains or losses, are recognised in surplus or deficit.

Accrued interest

At each reporting date, accrued interest expense is converted using the spot rate applicable for the relevant currency on the reporting date or on the closest possible date before the reporting date and recognised in surplus or deficit. On maturity, interest expense converted at the currency rate applicable to the payment date, is recognised in surplus or deficit.

3.3. Derivative financial instruments

The notional amount of derivatives, including those expected to be settled on maturity, is not recognised in the balance sheet. An appropriate disclosure is made in the notes.

Margin calls receivable/payable on derivative financial instruments

Margin calls receivable or payable related to these instruments are recognised in the balance sheet.

Cash adjustments

If a cash adjustment is paid or received at the inception of the derivative instrument it is recognised as an asset (payment made) or a liability (payment received).

On termination of a derivative instrument before its initial maturity, cash adjustments received or paid by Central Government are recognised in surplus or deficit.

3.4. Hedging transactions

In a hedging transaction, the hedging instrument and the hedged item are matched for the purposes of recognition in surplus or deficit.

Revenue and expense (realised or unrealised), as well as any cash adjustments, relating to the hedging instrument are matched with those of the hedged item for the purposes of recognition in surplus or deficit. Changes in the value of hedging instruments are not recognised in the balance sheet unless the recognition of some or all of these changes is required to match the effects of the hedged item.

Use of options purchased for hedging

The initial premium paid on the purchase of an option is recognized as an asset.

Where the option is used in a hedging transaction, the premium is recognised in surplus or deficit at the same time as the hedged item. Therefore, if the risk affects several periods (where, for example, a floating interest rate loan is “capped”), the premium is allocated on a time basis over the hedged period.

Discontinuation of hedge accounting

The accounting treatment of discontinuation of the hedge varies according to the following circumstances:

- when the hedging instrument is exercised or expires whilst the hedged item still exists, hedge accounting continues to apply to the gain or loss recognised on the hedging instrument by application of the matching principle. For example, on early termination of a derivative used in a hedging relationship, if Central Government receives or pays a cash adjustment , the latter is recognised in surplus or deficit at the same time as the hedged risk affects surplus or deficit;
- when the hedging instrument no longer meets the qualifying criteria or the hedging relationship is discontinued and the hedged item still exists, hedge accounting continues to apply to the cumulative unrealised gains or losses on the hedging instrument up until the date the hedge is discontinued. These unrealised gains or losses are then recognised in a suspense account in the balance sheet. Subsequent changes in value of the instrument, if it is retained, are treated as an open position;
- when the hedged item is extinguished or no longer partly or wholly qualifies as an eligible hedged item and the hedging instrument is retained, the latter instrument is treated partly or wholly as an open position. Any gain or loss previously recognised through the balance sheet in application of hedge accounting rules is immediately recognised through surplus or deficit.

3.5. Transactions not qualifying for hedge accounting

In those cases where no hedging relationship can be demonstrated, the transaction is considered to be an open position. Changes in the value of transactions in an open position are recognised in the balance sheet and as a component of net financial expense.

4. DISCLOSURES IN THE NOTES [3]

4.1. Financial debts

The notes provide a description of financial debts including their amount, term, financial terms and conditions, transaction costs and repayment terms for the principal.

Changes in the amount of financial debts for the period are presented in a table.

The outstanding balance at the reporting date and the amount of expected repayments for future periods broken down by maturity into less than one year, from one to five years, and more than five years are also disclosed.

The market value of financial debt at the reporting date is disclosed.

Information is also provided in the notes on the amount of premiums and discounts at the reporting date and changes in the latter between the beginning and the end of the period.

Loans taken out for which no funds had been received at the reporting date and undelivered redeemed securities are also disclosed.

4.2. Hedging transactions

Information is provided:

> on hedging strategies adopted, with a description of the different types of transaction carried out to reduce risks (interest rate or currency) to which Central Government is exposed;

> on hedged items;

> on debt structure, with a presentation of its characteristics before and after hedging transactions.

4.3. Derivative financial instruments

The following disclosures are made in the notes:

> the notional amount of derivative financial instruments at the reporting date broken down by purpose, nature and type of market, type of product, remaining term;

> the amount of transactions associated with derivative financial instruments if the amounts recognised in the balance sheet are material, particularly option premiums;

> data on interest-rate risks, exchange-rate risks, repricing risks and counterparty risks on all derivative financial instruments;

> the market value of derivative financial instruments (hedging instruments or open positions) at the reporting date.

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[3] It is sometimes necessary to use market reference data for interest and currency rates to meet the requirements of the Standard including those for disclosure. This information is provided by financial information agencies (Bloomberg, Reuters, etc.) or international financial institutions (European Central Bank, etc.).