



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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B-154506

AUG 23 1978

The Honorable Anthony M. Solomon
Under Secretary for Monetary Affairs
Department of the Treasury

Dear Tony:

Your letter of May 16, 1978, asked us to work with the Treasury Department in reexamining the Exchange Stabilization Fund's accounting presentation of certain items in its financial statements, specifically the (1) treatment of special drawing rights allocations as liabilities and (2) accounting for the accrued Exchange Stabilization Fund exchange gains and losses.

In regard to your first question, there are three alternatives for classifying the special drawing rights allocations.

1. As a long-term liability, since it represents an obligation that arises if the International Monetary Fund or the Special Drawing Account were liquidated, if the United States withdrew from the Fund or the Special Drawing Rights Department, or if the special drawing rights allocation were cancelled. This method is currently used in the Exchange Stabilization Fund's annual report. If management determines that the above events are probable (the event or events are likely to occur) then this would be the preferred alternative. The International Monetary Fund suggested that the allocation may be accounted for as a liability; however, it prescribed no particular accounting treatment by country participants, advising that participants would be guided by their own legislation, policies and practices.
2. As equity, since the objective is to make special drawing rights the principal reserve asset in the international monetary system, and they would then be a permanent addition to the stock of world reserves, subject only to the decision of member governments in the International Monetary Fund to cancel them. If management determines that the prospect for any cancellation is remote (the chance of the event occurring is slight), then this would be the preferred alternative.

3. As a special category on the balance sheet, after the liability section and before the equity section. Government accounting practices recognize an item as having elements of both liability and equity. We understand that the prospect that special drawing rights will be cancelled for any reason is remote, and that the United States has a major or controlling voice in International Monetary Fund decisions in that regard. While this suggests that the allocations could be classified as equity, the characteristics of liability also exist. If a cancellation were to occur, the United States obligation for payment would be the excess of special drawing rights allocations received over its holdings.

In selecting an appropriate alternative, management will need to decide which of the foregoing alternatives best reflects the substance of the special drawing rights and the effect on the resources of the Exchange Stabilization Fund.

Enclosed are pro forma balance sheets illustrating methods two and three and a pro forma footnote explaining the special drawing rights. Regardless of the accounting presentation, a footnote should be included that adequately discloses the contingent liability created when the United States uses its special drawing rights to obtain currencies from other countries.

Regarding your second question, we offer the following viewpoint concerning the accounting treatment for accrued Exchange Stabilization Fund exchange gains and losses. Presently, the Fund absorbs all translation gains and losses arising from obligations denominated in foreign currencies. Also, it has been a Treasury practice to present the Fund's annual report in accordance with generally accepted accounting principles. As long as Treasury maintains this practice, we see no valid reason why it should not abide by Financial Accounting Standards Board Statement No. 8 relating to translation of foreign currency transactions. We believe Treasury was correct in applying this Standard to the Fund's fiscal year 1977 annual report.

Sincerely yours,

SIGNED ELMER B. STAATS

Comptroller General
of the United States

Enclosures - 3

BALANCE SHEET
SEPTEMBER 30, 1977 AND SEPTEMBER 30, 1976

ENCLOSURE 8

(In Thousands of Dollars)

<u>ASSETS</u>	<u>SEPT. 30, 1977</u>	<u>SEPT. 30, 1976</u>
Current Assets:		
Cash:		
Treasury of the United States - Checking Account	\$ 581	\$ 638
Secretary of the Treasury - Special Account #3 - Federal Reserve Bank of New York	22,947	32,831
Deposits in foreign banks a/	*	300,000
Special Drawing Rights b/	2,489,275	2,356,633
Gold c/	12,723	-
Investments in United States securities	2,019,565	1,529,337
Accounts receivable	441	119
Accrued interest receivable:		
Special Drawing Rights holdings b/	37,228	35,780
United States securities	9,032	6,092
Foreign bank deposits	-	90
Pr. paid items	470	552
Total current assets	4,672,262	4,261,672
Fixed assets (at cost), net of allowance for depreciation and amortization:		
Furniture, equipment, automobile, and leasehold improvements	476	492
Land and structure	126	128
Total fixed assets	602	620
Total assets	\$4,672,864	\$4,262,292
<u>LIABILITIES, ALLOCATIONS, AND EQUITY</u>		
Current Liabilities:		
Accrued liabilities - Government	\$ 1,165	\$ 1,373
Accrued liabilities - Other	489	1,115
Accrued payroll	732	648
Accrued annual leave	1,138	879
Accrued charges payable - Special Drawing Rights b/	40,394	40,829
Exchange translation liability - Swiss-franc denominated U.S. Treasury notes d/	- 162,366	79,771
Total current liabilities	\$ 206,285	\$ 124,222
Long-term liabilities:		
Exchange translation liability - Swiss-franc denominated U.S. Treasury notes d/	241,939	330,253
Other liabilities:		
Special Drawing Rights certificates b/	1,200,000	800,000
Total liabilities	\$1,648,224	\$1,254,475
Equity:		
Appropriated Capital	200,000	200,000
Special Drawing Rights allocations b/	2,669,132	2,654,344
Total Appropriation and allocations	\$2,669,132	\$2,854,344
Retained earnings:		
Balance beginning of period	153,473	162,828
Prior year adjustment to establish exchange loss on outstanding Swiss-franc denominated U.S. Treasury notes d/	-	-
Net income (loss) for the period ended September 30, 1977, and three-month period ended September 30, 1976 (Exhibit)	2,665	(9,355)
Balance end of period	155,508	153,473
Total equity	3,024,640	3,007,817
Total liabilities and equity	\$4,672,864	\$4,262,292

BALANCE SHEET
SEPTEMBER 30, 1977 AND SEPTEMBER 30, 1976

(In Thousands of Dollars)

<u>ASSETS</u>	<u>SEPT. 30, 1977</u>	<u>SEPT. 30, 1976</u>
Current Assets:		
Cash:		
Treasury of the United States - Checking Account	\$ 581	\$ 638
Secretary of the Treasury - Special Account #3 - Federal Reserve Bank of New York	22,947	32,431
Deposits in foreign banks a/	•	300,000
Special Drawing Rights b/	2,489,275	2,356,633
Gold c/	62,723	-0-
Investments in United States securities	2,049,565	1,529,337
Accounts receivable	441	119
Accrued interest receivables:		
Special Drawing Rights holdings b/	37,228	35,780
United States securities	9,032	6,092
Foreign bank deposits	-0-	90
Prepaid items	470	552
Total current assets	<u>4,672,262</u>	<u>4,261,672</u>
Fixed assets (at cost), net of allowance for depreciation and amortization:		
Furniture, equipment, automobile, and leasehold improvements	476	492
Land and structure	126	128
Total fixed assets	<u>602</u>	<u>620</u>
Total assets	<u>\$4,672,864</u>	<u>\$4,262,292</u>
<u>LIABILITIES, ALLOCATIONS, AND EQUITY</u>		
Current Liabilities:		
Accrued liabilities - Government	\$ 1,165	\$ 1,373
Accrued liabilities - Other	489	1,115
Accrued payroll	733	648
Accrued annual leave	1,138	879
Accrued charges payable - Special Drawing Rights b/	40,394	40,829
Exchange translation liability - Swiss-franc denominated U.S. Treasury notes d/	162,366	79,378
Total current liabilities	<u>\$ 206,285</u>	<u>\$ 124,222</u>
Long-term liabilities:		
Exchange translation liability - Swiss-franc denominated U.S. Treasury notes d/	241,939	330,253
Other liabilities:		
Special Drawing Rights certificates b/	1,200,000	800,000
Total liabilities	<u>\$1,648,224</u>	<u>\$1,254,475</u>
Allocations:		
Special Drawing Rights allocations b/	\$2,669,132	\$2,654,344
Total allocations:	<u>2,669,132</u>	<u>2,654,344</u>
Equity:		
Appropriated (January 30, 1934)	2,000,000	2,000,000
Less amount transferred to International Monetary Fund (July 31, 1945)	1,800,000	1,800,000
Net appropriated capital	<u>200,000</u>	<u>200,000</u>
Retained earnings:		
Balance beginning of period	153,473	162,828
Prior year adjustment to establish exchange loss on outstanding Swiss-franc denominated U.S. Treasury notes d/	-0-	-0-
Net income (loss) for the period ended September 30, 1977, and three-month period ended September 30, 1976 (Exhibit)	<u>2,035</u>	<u>(9,355)</u>
Balance end of period	<u>155,508</u>	<u>153,473</u>
Total equity	<u>355,508</u>	<u>353,473</u>
Total liabilities and equity	<u>\$4,672,864</u>	<u>\$4,262,292</u>

*Less than \$500.00

PROPOSED FOOTNOTE FOR SPECIAL-DRAWING-RIGHTS

Pursuant to the Special Drawing Rights Act of 1968, Special Drawing Rights (SDR) allocated to or otherwise acquired by the United States are resources of the Exchange Stabilization Fund (ESF). SDRs, once allocated, are permanent resources unless cancelled (which requires an 85 percent majority decision of the total voting power of the Board of Governors of the International Monetary Fund), the Special Drawing Account is liquidated, the International Monetary Fund is liquidated, or the United States chooses to withdraw from it or to terminate its participation in the Special Drawing Account. Under articles XXIV and XXV and Schedules H and I of the International Monetary Fund Agreement which cover termination of participation in or liquidation of the Special Drawing Account, each participant has an obligation to pay to the Fund an amount equal to its allocation of SDRs and any other amounts that may be due and payable because of participation in the Account. The Fund also has an obligation to redeem the SDRs held by each participant. The IMF and the member would settle any net balances from setting off these obligations. The following schedule illustrates this effect on Treasury holdings as of September 30, 1977:

	<u>(000-omitted)</u>
SDR allocations	\$2,669,132
SDR holdings	<u>2,489,275</u>
Net use (contingent liability)	<u>\$179,857</u>