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Minister _____F.F.Mammadov

Chairman of the Management Board
_____E.S.Rustamov

Regulations **on accounting of foreign currency operations in** **the banking system of the Republic of Azerbaijan**

1. General provisions

- 1.1. These Regulations have been developed according to the Laws of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan, on Banks and Banking Activity in the Republic of Azerbaijan and other legislative acts of the Republic of Azerbaijan and determine the accounting policy on foreign currency operations recorded in financial statements and influencing the currency position of the banking system of the Republic of Azerbaijan (hereinafter – the bank).
- 1.2. These Regulations govern accounting principles on foreign currency operations, including accounting of assets whose value is in foreign currency and is translated into the national currency in financial statements, as well as rules for recognition of income and losses from revaluation of relevant accounts due to changes to the official exchange rate.

2. Definitions

- 2.1. **Foreign currency** – money in the form of banknotes, Treasury notes and coins in circulation that are a legal tender in the territory of a relevant country or a group but can be exchanged for money in circulation in the said territories and funds in monetary units of foreign countries, international money or settlement accounts.
- 2.2. **Foreign currency operations** – operations recorded in foreign currency or whose settlements are required to be made in foreign currency and include:
 - buy/sell foreign currency;

- exchange of one currency for another one;
 - buy/sell assets, that are in foreign currency and are translated into national currency in financial statements;
 - recognition of income gained and expenses incurred in foreign currency;
 - other operations influencing bank's currency position.
- 2.3. **Transaction date** – date when foreign currency transaction is conducted.
- 2.4. **Value date** – date coordinated by transaction parties on crediting of funds to counter-agent's account.
- 2.5. **Transaction rate** – exchange rate of foreign currency agreed upon as of the transaction date.
- 2.6. **Official exchange rate** – the AZN/foreign currency exchange rate set by the Central Bank of the Republic of Azerbaijan for accounting purposes.
- 2.7. **Exchange difference** – difference resulting from translating a given number of foreign currency into another one at different exchange rates.

3. Recognition of foreign currency operations

- 3.1. Foreign currency operations are recognized in financial statements at an official exchange rate as of the development date and at the value resulting from sum of the amount of transaction in foreign currency.

4. Accounting rules for foreign currency operations

- 4.1. The basis for foreign currency accounting is a multi-currency system.
- 4.2. The multi-currency system means that in double entry foreign currency accounting both sides are recorded in various currencies.
- 4.3. Records on foreign currency operations are made at an official exchange rate.
- 4.4. Translation of one foreign currency into another one is accounted as a combination of 2 transactions – buy and sell of these currencies in national currency.
- 4.5. When accounting foreign currency operations, difference between the official exchange rate and the transaction rate is recognized as gain or loss and recorded in financial statements as of the value date.
- 4.6. If during foreign currency operations the transaction and value dates differ, transactions are recorded in relevant off-balance sheet accounts from the transaction to value date.

- 4.7. If during foreign currency operations the transaction and value dates coincide, operations are recorded directly in balance sheet accounts.
- 4.8. In multicurrency system accounting gain/loss accounts on revaluation of foreign currency position are not used.

5. Exchange difference accounting

- 5.1. In accounting, balances of foreign currency denominated accounts (excluding investments made for participation in other organizations' authorized capital and capital accounts) are adjusted (revalued) to official exchange rate changes.
- 5.2. In accounting, foreign currency denominated investments made to other organizations' authorized capital and currency operations related to the capital account are recognized at an official exchange rate as of the value date and not adjusted (revalued) to official exchange rate changes.
- 5.3. If the official exchange rate decreases, exchange difference is recorded as gain in asset currency accounts, and as expense in liability currency accounts.
- 5.4. If the official exchange rate increases, exchange difference is recorded as loss in asset currency accounts, and as gain in liability currency accounts.

6. Final provisions

- 6.1. The Regulations of the Central Bank on Evaluation of Foreign Currency Accounts in Accounting Balances of Credit Institutions dated 28 October 1996 are deemed to lose effect due to enactment of these Regulations.
- 6.2. These Regulations take effect on 1 July 2001.

**Methodological instructions
on accounting of foreign currency operations:**

1. Buy foreign currency:

1.1. If transaction rate is higher than the official rate:

Dr Cash/ correspondent account - in foreign currency
Dr Losses on foreign currency denominated dealing operations - in national currency
(to the amount of difference between transaction and official exchange rates)
Cr Cash/ correspondent account - in national currency

1.2. If transaction rate is lower than the official rate:

Dr Cash/ correspondent account - in foreign currency
Cr Cash/ correspondent account - in national currency
Cr Gains on foreign currency denominated dealing operations - in national currency
(to the amount of difference between transaction and official exchange rates)

2. Sell foreign currency:

2.1. If transaction rate is lower than the official rate:

Dr Cash/ correspondent account - in national currency
Dr Losses on foreign currency denominated dealing operations - in national currency
(to the amount of difference between transaction and official exchange rates)
Cr Cash/ correspondent account - in foreign currency

2.2. If transaction rate is higher than the official rate:

Dr Cash/ correspondent account - in national currency
Cr Cash/ correspondent account - in foreign currency
Cr Gains on foreign currency denominated dealing operations - in national currency
(to the amount of difference between transaction and official exchange rates)

3. Buy assets, whose value is denominated in foreign currency, but recorded in national currency in the balance sheet:

Dr Relevant asset account - in national currency
Cr Cash/ correspondent account/ customer account - in foreign currency

4. Sell assets, whose value is denominated in foreign currency, but recorded in national currency in the balance sheet:

Dr Cash/ correspondent account/ customer account - in foreign currency
Cr Relevant asset account - in national currency

5. The following accounting entry is made in exchange difference accounting:

5.1. If the exchange rate of the national currency is down:

5.1.1. Dr Asset currency accounts (excluding relevant accounts of classes 20, 50, 54, 55, 60-95)
Cr Gains on revaluation of foreign currency position – in national currency

5.1.2. Dr Losses on revaluation of foreign currency position – in national currency
Cr Liability currency accounts (excluding relevant accounts of classes 50, 51, 54, 55, 60-95)

5.2. If the exchange rate of the national currency is up:

5.2.1. Dr Losses on revaluation of foreign currency position – in national currency
Cr Asset currency accounts (excluding relevant accounts of classes 20, 50, 54, 55, 60-95)

Dr Liability currency accounts (excluding relevant accounts of classes 50, 51, 54, 55, 60-95)

Cr Gains on revaluation of foreign currency position – in national currency

Examples on foreign currency operations accounting:

1. Buy foreign currency:

Example 1.1.

If transaction rate is higher than the official rate:

Bank A buys \$100. As of that date 1 USD/AZN exchange rate is AZN4524, while Bank A's transaction rate is AZN 4526.

AZN equivalent of \$100 at an official exchange rate is $100 \times 4524 = 452400$ AZN, while at a transaction rate is $100 \times 4526 = 452600$ AZN. As we see, as the transaction rate is higher than the official rate, Bank A should recognize AZN200 worth of loss ($452400 - 452600$) with the following accounting entry:

Dr Cash/ correspondent account	\$100
Dr Losses on foreign currency denominated dealing operations (amount of difference between transaction and official exchange rates) AZN200	
Cr Cash/ correspondent account	AZN 452600

Example 1.2.

If transaction rate is lower than the official rate:

Bank A buys \$100. As of that date 1 USD/AZN exchange rate is AZN4530, while Bank A's transaction rate is AZN 4520.

AZN equivalent of \$100 at an official exchange rate is $100 \times 4530 = 453000$ AZN, while at a transaction rate is $100 \times 4520 = 452000$ AZN. As we see, as the transaction rate is lower than the official rate, Bank A should recognize AZN1000 worth of gains ($453000 - 452000$) with the following accounting:

Dr Cash/ correspondent account	\$100
Cr Cash/ correspondent account	AZN452000
Cr Gains on foreign currency denominated dealing operations (difference between transaction and official exchange rates)	AZN1000

2. Sell foreign currency:

Example 2.1.

If transaction rate is higher than the official rate:

Bank V sells \$100. As of that date 1 USD/AZN exchange rate is AZN4524, while Bank V's transaction rate is AZN4526.

AZN equivalent of \$100 at an official exchange rate is $100 \times 4524 = 452400$ AZN, while at a transaction rate is $100 \times 4526 = 452600$ AZN. As we see, as the transaction rate is higher than the official rate, Bank V should recognize AZN200 worth of gains ($452400 - 452600$) with the following accounting entry:

Dr Cash/ correspondent account	AZN452600
Cr Gains on foreign currency denominated dealing operations (difference between transaction and official exchange rates)	AZN 200
Cr Cash/ correspondent account	\$100

Example 2.2.

If transaction rate is lower than the official rate:

Bank V sells \$100. As of that date 1 USD/AZN exchange rate is AZN4530, while Bank V's transaction rate is AZN4520.

AZN equivalent of \$100 at an official exchange rate is $100 \times 4530 = 453000$ AZN, while at a transaction rate is $100 \times 4520 = 452000$ AZN. As we see, as the transaction rate is

lower than the official rate, Bank V should recognize AZN1000 worth of loss (453000-452000) with the following accounting entry:

Dr Cash/ correspondent account	AZN452000
Dr Losses on foreign currency denominated dealing operations (difference between transaction and official exchange rates)	AZN1000
Cr Cash/ correspondent account	\$100

3. Buy assets whose value denominated in foreign currency, but recorded in national currency in the balance sheet:

Example 3.1.

Bank A buys a \$1000 worth of computer. As of that date 1 USD/AZN official exchange rate is AZN 4524. Cost of computer is $4524 \times 1000 = 4524000$ AZN in manat equivalent. The following accounting entry is made in this case:

Dr Computers and communication equipment	AZN4524000
Cr Cash/ correspondent account/ customer account	\$1000

4. Buy assets whose value denominated in foreign currency, while recorded in national currency in the balance sheet:

Example 4.1.

Bank A buys \$1000 worth of computer. As of that date 1 USD/AZN official exchange rate is AZN 4524. Cost of computer is $4524 \times 1000 = 4524000$ AZN in manat equivalent. The following accounting entry is made in this case:

Dr Cash/ correspondent account/ customer account	1000 \$
Cr Computers and communication equipment	AZN4524000

5. Currency exchange:

Example 5.1.

Bank A exchanges \$100 for 200 Deutsche marks. As of that date the official 1 USD/AZN rate is AZN 4524, official rate of 1 DM is AZN 2600. Transaction rates are AZN4526 and AZN2605 respectively.

Bank A should recognize AZN200 worth of gains due to difference between official exchange rate of \$100 and transaction rate $((4526-4524)*100=200)$ and AZN1000 worth of loss due to difference between official exchange rate of DM and the transaction rate $((26052600)*200=1000)$. The following accounting entry is made in this case:

- 1) Dr Cash/ correspondent account (100*4526) AZN 452600
 Cr Gains on foreign currency denominated dealing operations
 (difference between transaction and official exchange rates) AZN 200
 Cr Cash/ correspondent account \$100
- 2) Dr Cash/ correspondent account 200 DM
 Dr Losses on foreign currency denominated dealing operations
 (difference between transaction and official exchange rates) AZN 1000
 Cr Cash/ correspondent account AZN(200*2605) 521000