

Approved
by Resolution of the Management Board
of the Central Bank of the Republic of Azerbaijan

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Chairman of the Management Board
_____ **Elman Rustamov**

Regulations
on accounting of payment facilities in financial statements in the
banking system of the Republic of Azerbaijan

1. General provisions

- 1.1. These Regulations have been developed in accordance with 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', the Civil Code of the Republic of Azerbaijan and other legislative acts of the Republic of Azerbaijan, as well as regulations of the Central Bank of the Republic of Azerbaijan and determine accounting of payment facility settlements in financial statements in the banking system of the Republic of Azerbaijan (hereinafter – banks).
- 1.2. Legal relations on settlements with payment facilities are regulated under the requirements of the Civil Code of the Republic of Azerbaijan.

2. Definitions

- 2.1. **Payment facility settlements** in the banking system are defined as settlements on transactions with plastic cards, cheques and other payment facilities.
- 2.2. **Plastic card** – a personal payment facility that allows the card holder to make cashless payment for goods, works or services, as well as withdraw cash from banks and ATMs.

Use of plastic cards is regulated with mutual obligations between the cardholder and the issuer bank.

- 2.3. **Plastic cards** are issued to individuals and legal entities.
- 2.4. A bank opens a separate bank account for every cardholder.
- 2.5. **Corporate cards** – plastic cards that allow a legal entity cardholder to conduct operations on its account.
- 2.6. Plastic card operations are conducted in two ways:
 - via ATMs:
 - via POS-terminals.
- 2.7. **ATMs** – bank machines designed for cash issuance, cashless payment for goods, works or services and collection during plastic card transactions. In addition, the ATM allows the cardholder to obtain information about the current status of his/her account (including a statement on paper).
- 2.8. **POS-terminals** – electronic devices capable to read the information placed on a magnetic tape or 'chip' of plastic cards and communicate with the bank for plastic card transactions. POS-terminals are located in trade and service points.
- 2.9. **Processing center** – an independent organization or bank branch serving network of ATMs and network of trade and service points that accept plastic cards for payment. The processing center has access to information sharing network of credit institutions. Operations are authorized with the help of the processing center.
- 2.10. The issuing bank is the guarantor of fulfillment of payment obligations arising in the process of servicing plastic cards. Therefore, plastic cards remain the property of the bank for the entire period of validity, and cardholders (customers) act as users of plastic cards.
- 2.11. Plastic cards are divided into two types in terms of their nature:
 - debit cards;
 - credit cards.
- 2.12. **Debit cards** – allow the cardholder to make payments for goods, works and services and withdraw funds in cash within the amount in the bank account by directly

deducting funds from the account. Debit card holders should deposit certain amount of money in advance to the account with the issuing bank. When making card payments, the funds in the account are reduced in accordance with the transaction.

2.13. **Credit cards** – allow the cardholder to make payments for goods, works and services on a bank loan and receive funds in cash. Certain limits are set for credit cards. The limit of funds on the opened account depends on the volume of credit line opened for the cardholder to spend funds. The loan can be one-time and renewable. Depending on the agreement between the bank and the cardholder, all or part of the credit line is restored after payment.

2.14. A **cheque** is a security with a written order given by the issuer to the bank for payment of specified amount of money to the cheque holder and unconditioned to pay the amount to the holder of the cheque.

3. Off-balance sheet accounting of transactions

3.1. After payment facilities are developed at the order of the bank they are recorded in off-balance sheet accounts in financial statements until they are released for use. In this case, the following accounting entry is made:

Dr Other documents and valuables

Cr Off-balance sheet contra-accounts for assets

3.2. Payment facilities are unrecorded from off-balance sheet accounts after they are released for use. In this case, the following accounting entry is made:

Dr Off-balance sheet contra-accounts for assets

Cr Other documents and valuables

4. Accounting of plastic card operations

4.1. Plastic card operations accounting is divided into two parts in financial statements:

- Accounting of ATM operations;
- Accounting of POS-terminal operations.

4.2. ATM operations:

4.2.1. A bank opens a separate sub-account for ATM operations per ATM. The bank deposits certain amount of cash to ATMs according to the procedures determined for depositing cash to ATMs. In this case, the following accounting entry is made:

Dr Cash in ATMs

Cr Cash office

4.2.2. The following accounting entry is made on the basis of the information received from the Processing center on the flow of cash in ATMs:

Dr Amounts due and other assets

Cr Cash in ATMs

4.2.3. The following accounting entry is made if the cardholder using the ATM is the customer of that bank:

Dr Customer account

Cr Amounts due and other assets

4.2.4. The following accounting entry is made if the cardholder using the ATM is the customer of another bank:

Dr Relevant nostro correspondent account

Cr Amounts due and other assets

4.2.5. The following accounting entry is made if cash from the ATM is handed over to the bank following the established procedures:

Dr Cash account

Cr Cash in ATMs

4.3. POS-terminal operations:

4.3.1. A bank opens a separate bank account per POS-terminal owner during plastic card operations via POS-terminals. The following accounting entry is made on the basis of the information received from the Processing center:

Dr Amounts due and other assets

Cr POS-terminal owner's account

4.3.2. The following accounting entry is made if the card holder using the POS-terminal is the customer of the bank:

Dr Customer account

Cr Amounts due and other assets

4.3.3. The following accounting entry is made if the card holder using the POS-terminal is the customer of another bank:

Dt Relevant nostro correspondent account

Cr Amounts due and other assets

5. Accounting of cheque operations

5.1. Accounting of cheque operations is divided into two parts:

- Accounting of traveler cheque operations;
- Accounting on settlement cheque operations.

5.2. Traveler cheque operations:

5.2.1. The following accounting entry is made if the bank makes advance payment to buy traveler cheques:

Dr Advance payments

Cr Relevant nostro correspondent account

5.2.2. The following accounting entry is made when a bank buys traveler cheques:

Dr Traveler cheques

Cr Advance payments

5.2.3. The following accounting entry is made when a bank sells traveler cheques:

Dr Cash office/ Customer account

Cr Traveler cheques

5.3. Settlement cheque operations

5.3.1. Settlement cheques are divided into two parts in terms of payment conditions:

- o cheques paid at the time of presentation;
- o cheques paid after being accepted for collection.

5.3.2. The following accounting entry is made when payments are made on the **cheques paid at the time of presentation**:

Dr Amounts due and other assets

Cr Cash office/ Customer account

5.3.3. The following accounting entry is made when the bank takes the paid funds from the issuing bank:

Dr Relevant nostro correspondent account

Cr Amounts due and other assets

5.3.4. Operations on the **cheques paid after being accepted for collection** are conducted as follows:

- When cheques are presented, they are recorded in the relevant off-balance account by the bank. In this case, the following accounting entry is made:

Dr Documents and valuables accepted for collection

Cr Off-balance sheet contra-accounts for assets

- Accepted cheques are sent to issuing bank to be paid. In this case, the following accounting entry is made:

Dr Documents and valuables sent for collection

Cr Documents and valuables accepted for collection

- The following accounting entry is made when funds are received from the issuing bank:

Dr Relevant nostro correspondent account

Cr Amounts due and other liabilities

- The following accounting entry is made when the bank gives funds to the cheque owner:

Dr Amounts due and other liabilities

Cr Cash office/ Customer account

- At the same time, accepted cheques are unrecorded from the off-balance sheet account with the following accounting entry:

Dr Off-balance sheet contra-accounts for assets

Cr Documents and valuables sent for collection

6. Final provisions

6.1. These Regulations take effect from 1 February 2003.

E.S.Rustamov

Chairman

the Management Board of the

Central Bank of the Republic of Azerbaijan