

Approved  
at Resolution of the Management Board  
of the Central Bank of the  
Republic of Azerbaijan dated  
“ 18 ” January 2003  
Protocol N 01  
Register N 32

**Chairman of the Management Board**  
\_\_\_\_\_ **Elman Rustamov**

**Regulations**  
**on accounting of payment instruments 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, other legislative acts of the Republic of Azerbaijan and regulations of the Central Bank of the Republic of Azerbaijan and determine accounting of settlements with payment instruments in financial statements in the banking system of the Republic of Azerbaijan (hereinafter – the bank).
- 1.2. Legal relations on settlements with payment instruments are regulated by the requirements of the Civil Code of the Republic of Azerbaijan.

**2. Definitions**

- 2.1. **Settlements with payment instruments** in the banking system are defined as settlements with plastic cards, checks and other payment instruments.
- 2.2. **Plastic card** – is a personal payment instrument allowing a cardholder to conduct cashless payments for goods, works or services, as well as withdraw

cash from banks and ATMs. The order of use of plastic cards is regulated by mutual obligations between the cardholder and the issuer bank.

- 2.3. **Plastic cards** are issued for legal entities and individuals.
- 2.4. The Bank opens a separate bank account for every cardholder.
- 2.5. **Corporate cards** – are plastic cards allowing the legal entity cardholder to conduct operations on its account.
- 2.6. Plastic card transactions are maintained in two ways:
  - through automated teller machines (ATMs);
  - through POS-terminals.
- 2.7. **ATMs** – are automated teller machines provided for cash withdrawal, non-cash payments for goods, works or services and collection during plastic card operations. Moreover, ATMs allow cardholders obtain information on their current account status (including in hard-copy).
- 2.8. **POS-terminal** – is an electronic device capable to read off information on plastic cards' magnetic stripe or chip and connects to the bank to maintain plastic card transactions. POS-terminals are located in retail and service points.
- 2.9. **Processing center** – an independent organization or a bank division servicing ATMs and trade and service points accepting plastic cards for payments. The processing center has access to credit institutions' data exchange network. The center allows authorization of transactions.
- 2.10. Issuer banks guarantee execution of payment obligations occurring during plastic card servicing. Accordingly, plastic cards remain bank property over the entire validity period, while cardholders (customers) are plastic card users.
- 2.11. Plastic cards are divided into two types in terms of their nature:
  - debit cards;
  - credit cards.
- 2.12. **Debit card** – plastic card allowing its holder to make settlements for goods, works or services by directly drawing funds in the amount in his/her card account, and get funds in cash. Debit cardholders should credit certain amount of funds to their accounts with issuer banks in advance. During

plastic card operations funds in the account decrease by the amount of the transaction.

2.13. **Credit card** – plastic card allowing its holder to make settlements for goods, works or services against a bank loan and withdraw funds in cash. Certain limits are set for credit cards. The limit for funds on the opened account relates to the size of a credit line opened for the cardholder. A credit may be one-off or recurring. Depending on the agreement between the bank and the cardholder, the entire amount or a portion of a credit line may be restored after it is paid off.

2.14. **Cheque** or **check** is a written order that contains an unconditional order from the drawer that directs a bank to pay a definite sum of money to the payee.

### **3. Off-balance sheet accounting of transactions**

3.1. Payment instruments are recorded in off-balance sheets until they are put in use after they are developed at bank's order with the following accounting entry:

Dr Other documents and valuables

Cr Off-balance sheet contra-account for assets

3.2. Payment instruments are unrecorded from off-balance sheets after they are put in use with the following accounting entry:

Dr Off-balance sheet contra-account for assets

Cr Other documents and valuables

### **4. Accounting for plastic card transactions**

4.1. In banks' financial statements accounting for plastic card transactions are divided into 2 parts:

- accounting of ATM transactions;
- accounting of POS-terminal transactions.

4.2. **ATM transactions:**

4.2.1. When plastic card transactions are maintained via ATMs, the bank opens a dedicated sub-account for each ATM. The bank puts certain amount of money into ATMs by following preset procedures on putting cash into ATMs with the following accounting entry:

Dr Cash in ATMs

Cr Cash office

4.2.2. The following accounting entry is maintained on the basis of data on movement of cash in ATMs received from the Processing center:

Dr Amounts due and other assets

Cr Cash in ATMs

4.2.3. The following accounting entry is maintained if an ATM user is a customer of that bank:

Dr customer account

Cr Amounts due and other assets

4.2.4. The following accounting entry is maintained if an ATM user is a customer of another bank:

Dr relevant "nostro" account

Kt Amounts due and other assets

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

Dr Cash office

Kt Cash in ATMs

#### **4.3. POS-terminal transactions:**

4.3.1. When plastic card transactions are maintained via POS-terminals, the bank opens a dedicated sub-account per POS-terminal owner and the following accounting entry is made on the basis of data 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 a POS-terminal user is a customer of the bank:

Dr Customer account

Cr Amounts due and other assets

4.3.3. The following accounting entry is made if a POS-terminal user is a customer of another bank:

Dr Relevant “nostro” account

Cr Amounts due and other assets

## **5. Accounting of check transactions**

5.1. Check transactions are divided into 2 parts in banks’ financial statements:

- accounting of traveler checks;
- accounting of settlement checks.

### **5.2. Traveler check transactions:**

5.2.1. The bank makes the following accounting entry to purchase traveler checks when funds are paid in advance:

Dr Prepayments

Cr Relevant “nostro” account

5.2.2. The bank makes the following accounting entry when buying traveler checks:

Dr Traveler checks

Cr Prepayments

5.2.3. The bank makes the following accounting entry when selling traveler checks:

Dr Cash office/ Customer account

Cr Traveler checks

### **5.3. Settlement check transactions**

5.3.1. Settlement checks are divided into 2 parts in terms of payment terms:

- checks paid for at delivery;
- checks paid for when received to collection.

5.3.2. The following accounting entry is made on **checks paid for at delivery**:

Dr Amounts due and other assets

Cr Cash office/ Customer account

5.3.3. The bank makes the following accounting entry when it receives paid funds from issuer bank:

Dr Relevant “nostro” account

Cr Amounts due and other assets

5.3.4. Transactions on **checks paid for when received to collection** are maintained as follows:

– When checks are delivered to the bank, the latter records it in relevant off-balance sheet with the following accounting entry:

Dr Documents and valuables received for collection

Cr Off-balance sheet contra-account for assets

– Received checks are sent to the issuer bank for payment with the following accounting entry:

Dr Documents and valuables sent to collection

Cr Documents and valuables received for collection

– The following accounting entry is made when funds from the issuer bank are received:

Dr Relevant “nostro” account

Kt Amounts due and other liabilities

– The bank makes the following accounting entry when paying out funds to the holder of a check:

Dr Amounts due and other liabilities

Cr Cash office/ Customer account

– At the same time, received checks are unrecorded from the off-balance sheet with the following accounting entry:

Dr Off-balance sheet contra-account for assets

Cr Documents and valuables sent to collection

## **6. Final provisions**

6.1. These Regulations take effect on 1 February 2003.

Elman Rustamov  
Chairman of the Management Board  
of the Central Bank of the Republic of Azerbaijan