

PRAKAS
ON
THE ACCOUNTING PROCESS FOR FOREIGN CURRENCY TRANSACTIONS

Article 1

For the purposes of this Prakas, terms below are defined as follows:

- (1). The reporting currency is the currency used for maintaining accounts and presenting financial statements. For temporary accounting periods, the US dollar shall be used as reporting currency until such time as the dollarization of Cambodia's economy has advanced significantly.
- (2). A foreign currency is any currency other than a financial institution's reporting currency.
- (3). The exchange rate is the ratio between a unit of one currency and the amount of another currency into which that unit can be converted at a given time.
- (4). The spot rate is the exchange rate quoted for immediate delivery at the time of a foreign exchange transaction.
- (5). A forward rate is an exchange rate stipulated in an agreement to exchange currencies at a specified future date.
- (6). The closing rate is the spot exchange rate on the date of the balance sheet.
- (7). A foreign currency transaction is a transaction which is denominated in or requires settlement in a foreign currency, including foreign exchange transactions, which create foreign exchange positions.

Article 2

Foreign currency transactions shall be recorded in accordance with the provisions laid down by this Prakas. To this end, the accounting system used by financial institutions should at a minimum be organized so as to provide the information required in this Prakas.

Precious metals, such as gold and silver, which are held in a negotiable form shall follow the valuation rules set out in Article 6 of this Prakas.

Article 3

Financial institutions shall record spot or forward foreign currency transactions in accounts opened and denominated in each of the currencies used.

For the purposes of this Prakas, purchases or sales of foreign currencies in which the parties do not defer completion or defer it only for the customary period shall be regarded as spot contracts. Thus a spot contract is defined as any foreign exchange contract within two business days of its maturity unless a shorter period is customary or required in the local market.

For the purposes of this Prakas, purchases or sales of foreign currencies in which the parties decide to defer completion for more than the customary period of two business days shall be regarded as forward contracts.

Article 4

The counterpart of the foreign-currency accounting entries relating to foreign-exchange transactions - namely those which entail a foreign currency position - shall be entered in foreign exchange position accounts opened either on or off the balance sheet and denominated in each of the currencies used.

The reporting currency accounting entries relating to foreign exchange operations shall be entered in foreign exchange position counter value accounts on or off the balance sheet.

Consequently, transactions involving a foreign currency and the reporting currency shall be entered in their appropriate ledger and each ledger shall be balanced by using "mirror accounts" such as the following:

- * foreign currency exchange position divided into:
 - balance sheet exchange position
 - off-balance sheet exchange position.

- * reporting currency exchange position equivalent (or counter value) divided into:
 - balance sheet exchange position equivalent
 - off-balance sheet exchange position equivalent.

Article 5

Capital commitments arising from purchases or sales relating to spot foreign exchange transactions with the customary completion period of two business days and to forward foreign exchange transactions must be recorded in the appropriate off-balance sheet accounts on the date the operation is entered into. Upon delivery of the foreign currencies, the operations shall be entered in the financial institution's balance sheet.

Article 6

On each accounting statement date, the asset, liability or off-balance sheet items shall be valued at the market price prevailing on the statement date. The market rate applicable to asset and liability items and to spot foreign exchange commitments shall be the closing rate of the currency concerned.

The market rate applicable to forward foreign exchange commitments shall be the forward rate of the currency concerned for the outstanding term, namely the forward market rate corresponding to the maturity date of the commitment.

Article 7

On each accounting statement date, the differences between, on the one hand the amounts arising from the valuation - in the reporting currency - of the foreign-exchange position accounts in accordance with the provisions of Article 5 and, on the other hand, the amounts shown in the foreign-exchange position counter value accounts shall be entered in the profit and loss account. The counterpart of these entries must be recorded in the foreign-exchange

position counter value accounts denominated in the reporting currency.

Since it is not possible to debit a balance sheet account by crediting an off-balance sheet account and vice-versa, gains and losses posted to the profit and loss account and stemming from off-balance sheet exchange positions shall be balanced by a balance sheet balancing account.

The differences relating to transactions where the exchange risk is borne by the State must be entered in adjustment accounts.

Article 8

The accrued foreign currency income and expenses relating to loans and borrowings, securities or off-balance sheet operations shall be valued at the spot rate of the foreign currency concerned and entered in the profit and loss account with a frequency determined by the financial institution and at the latest on the accounting statement date.

Non-accrued foreign currency income receivable and expenses payable in respect of operations on or off the balance sheet shall be shown in separate accounts when said income and expenses have been hedged.

Article 9

To ensure consistent reporting of foreign exchange exposures throughout the banking system, revaluations should be performed at a minimum at the close of business at each month's end. If the month ends on a nonbusiness day, the closing positions of the preceding business day will be revalued.

Article 10

All provisions contrary to those of this Prakas are hereby repealed.

Article 11

The General Direction, the General Secretariat, the General Inspection, the General Cashier and all Departments of the National Bank of Cambodia, and all Banking and Financial Institutions under the NBC's supervisory authority shall strictly implement this Prakas.

Article 12

This Prakas shall have effect from the signing date.

Phnom Penh, 17 February 2000

The Governor

Signed and Sealed: **Chea Chanto**