

CIRCULAR
ON
MULTI-CURRENCY ACCOUNTING FOLLOWING
IMPLEMENTATION OF UNIFORM CHART OF ACCOUNTS

This circular gives guidance on the recommended approach for bank and financial institutions in adopting multi – currency accounting for transactions involving foreign currencies. It includes the procedures for daily revaluation and accounting for gains or losses on revaluation as well as recognition of exchange positions on foreign currency loans and foreign currency accrued interest.

The guidelines should be read in conjunction with the Prakas No. B 7-00-50 on the accounting process for foreign currency transactions dated February 17, 2000.

Multi – Currency Accounting

The uniform chart of accounts (COA) which has been adopted by banks is a multi–currency COA. Each general ledger account has a currency code, namely, the last digit.

This system of coding applies to assets, liabilities, income, and expense and off–balance sheet items. Therefore, the book – keeping entries for any banking operation can be made in by debiting and crediting the general ledger accounts by each currency. For instance, an outward remittance in Euros to the debit of a customer’s account can simply be made as follows, if the customer maintains a current account in Euros:

Debit Customer Account in Euros
Credit Nostro Account in Euros
[Ignore commission]

Similarly, a fixed loan in THB can be journalized as:

Debit Fixed Loan in THB
Credit Customer account in THB

There would be no foreign exchange involved. Any exchange risk in Euros or THB, in terms of assets and liabilities is neutralized by booking the asset and liability both as a debit and a credit.

However, if the customer has a USD current account and desires the bank to remit in Euros, the bank would convert the Euros to USD and debit the customer accordingly. This gives rise to an exchange position in Euros vis - a - vis the base currency in USD. The accounting entries are:

Debit Customer Account in USD
Credit Equivalence in Foreign Exchange in USD
Debit Foreign Exchange Position in Euros
Credit Nostro in Euros
[Base currency is USD]

In a multi – currency trial balance, both the USD and the Euros will balance in debits and credits. For presentation and reporting purposes, the conversion of the USD and Euros to Riel will not result in any translation gain or loss or exchange gain or loss.

In our example above, the bank has a foreign exchange position in Euro versus USD. Bank management should set its internal policy on the limit of exchange exposure. The exchange

position should be revalued daily or other intervals using market exchange rates and any gains or losses taken to the income statement. Gains and losses on foreign exchange revaluation for banks should not be taken to reserve accounts in the balance sheet.

Dual currency accounting

Many banks currently use dual currency accounting despite the adoption of the COA. There are two scenarios. The first is that a bank does not have an overseas correspondent for the foreign currency that it is remitting. For instance, a bank customer has a USD current account and he instructs his banker to remit in Euros. In this case, the banker merely passes the exchange position to his bank correspondent in USA and instructs him to remit Euro and charging his account in USD. The local bank accepts the exchange rate charged by the US bank and it does not have an exchange position. The disadvantage of this approach is that it is costly for the local bank and its customer.

The second scenario is that the customer maintains his current account in Riel but wishes to remit in USD. In this case, the accounting entries in a dual currency account would be:

Debit Customer in Riels

Credit Nostro in Euros and in Riels (Dual Currency) [Ignore commissions and assume the base currency is Riel]

The Euros in the nostro account and its equivalent in Riel will fluctuate with the market value of Euro vis – a vis Riel. Banks should revalue the foreign currency against the base currency at least once a month and take the gains or losses to income statement.

Foreign Currency income and expense items

Article 8 of the above Prakas states that the accrued foreign exchange income and expense relating to foreign currency loans and borrowings, securities or off – balance sheet operations shall be revalued at the spot rate and entered in the profit and loss account.

In a multi – currency accounting system as suggested above, this is easily done. Each month, there will be as many profit and loss statements as there are currencies in the bank. To give effect to article 8, banks need only to take up the exchange position of the net income less expense by currency and pass the accounting entries:

Assume, there is a net income, say in THB

Debit Income in THB

Credit Exchange position in THB

Debit Equivalence in USD [Assume the base currency is USD]

Credit Income in USD

[By virtue of this operation, banks will have revalued the foreign exchange income in their foreign currency loans]

In a dual currency accounting system, such accrued interest cannot be easily revalued since both the accrued interest receivable in foreign currency and the interest income were booked at the same booking rates. Any revaluation does not give effect to the amount earned.

Phnom Penh, 10 February 2005

Bank Supervision Department

Signed: **Phan Ho & Kim Vada**

N° B-7-95-04

Manager of all Commercial Banks

Subject: Monthly Statement of Assets and Liabilities on Diskette

Reference: Sub-Decree on the Supervision of Commercial Banks #29 ANK dated November 16, 1992.

With respect to the above mentioned subject and to improve efficiency in examination and timely reporting the Bank Supervision now requires all commercial banks to complete an electronic spreadsheet version of the above report as per instructions and diskette in addition to the signed paper copy as from June 1995.

Please submit to Bank Supervision the diskette and the Assets & Liabilities report on paper copy as per circular NBC N° 795-002 dated March 31, 1995.

The figures in the diskette shall be identical to the figures on paper copy.
Please contact the Bank Supervision for diskette (Software) and instructions.

Phnom Penh, June 23, 1995

Signed : **Tioulong Saumura**, Deputy Governor

Chea Sok, Bank Supervision and Examination

INSTRUCTIONS

Monthly Statement of Assets & Liabilities (Spreadsheet-based Report)

1- Summary

In addition to the existing Monthly Statement of Assets and Liabilities (paper form) all commercial banks are now required to complete an electronic spreadsheet version of this same Monthly Statement. Both the signed paper copy and the validated spreadsheet are to be handed in simultaneously to the staff of Bann Supervision Department before or on the 10 of the month following.

The following instructions explain how to use the Lotus 1-2-3, spreadsheet-based Monthly Statement of Assets and Liabilities that commercial banks are required to complete in addition to current statutory reporting requirements.

2- General Information

Currently, all commercial banks file a paper form known as the Monthly Statement of Assets and Liabilities (MSAL) to the Bank Supervision Department (BSD). BSD now requests that all reporting banks complete a spreadsheet version of the same form, and submit it together with the signed standard paper form to departmental staff.

BSD staffs have put the MSAL paper form onto a Lotus spreadsheet (1-2-3 Release 1 for Windows, with file format. WK3 and FM3). In the same spreadsheet, BSD has included a series of validation tests that will assist the commercial bank officers ensure correct reporting. For instance, a Monthly Statement is *invalid* if asset items do not add up to the reported Total Assets, or when Total Assets is not equal to Total Liabilities and Capital. On the other hand, a report that does not include a figure for capital is invalid. Therefore, the validation table allows reporting banks pinpoint areas of their monthly reports that are incorrect. Reporting banks must ensure that their monthly reports are valid before handing over their diskettes to BSD.

The Bank Supervision Department stresses that all Monthly Statements must be correctly completed in accordance with existing guidelines contained in Circular M1, a spare copy of which is included with the present instructions (see Annex 2). The MSAL paper form must contain the same data as that shown in the spreadsheet. As is currently the practice, the paper form must be approved by duly authorized certifying officers from the reporting banks before being submitted to the National Bank. All diskettes handed over to the National Bank must be checked for computer viruses with a reputable and up to date antivirus program.

3- Instructions on the use of Monthly Statement of Assets & Liabilities spreadsheet

- *Software Requirements :*

In order to run their spreadsheet copy of the Monthly Statement, reporting banks should have access to Lotus 1-2-3 Release 1 for Windows, or any later release of 1-2-3 that can handle .WK3 and .FM3 file formats. When handing over the MSAL spreadsheet to BSD, format .WK1 (1-2-3 for DOS) is acceptable.

- Spreadsheet Description :

–At the top left hand corner of the spreadsheet, a table contains basic information about the reporting bank, its assigned short name, the month reported on, the name of the reporting officer, and his/her contact telephone (refer to Annex 1, p1). Each bank is assigned a 3 letter short name which is also used as spreadsheet filename. This short name is used by NBC for clerical processing only and does not purport to replace in any way the official initials that each bank may have.

–Each MSAL spreadsheet contains an entry panel (see example in Annex 1, pp 1&2) which is simply the existing Monthly Statement of Assets & Liabilities. It also contains a validation table (in Annex 1, p 3) which is a series of test questions to ensure that the Monthly Statement is consistent and valid.

- Step by Step Instructions :

1. Make a backup copy of the spreadsheet file from the NBC issued diskette into the hard drive of your computer. The diskette has been checked for viruses with an anti-virus program.

2. In cell B3, enter the report month by typing the first 3 letters of the month eg. for April 1995 type Apr-95, for June 1995 type Jun-95 etc

3. In cells B4...B5 enter the name of the reporting officer and his/her contact telephone number.

4. Type in balance sheet data for report month in cells C12...C92. Enter the previous month's data in cells D12...D92. Column E displays the changes between columns C and D.

5. Information panel in cells B2...B5 and data entry panel C12...D92 are the only area of the spreadsheet reporting banks need to edit.

6. Cell C9 will display an “INVALID” flag if the submitted report is not consistent i.e there may be one or more cases where figures supplied in column C do not add up. In this case, move to the **validation table** which begins at cell F 1. A diagnosis is displayed with the location of the problem(s). Correct mistakes made in your data entry panel C12...C92 until the validation flag in C9 becomes “VALID”. Please refer to a staff officer of the BSD if you are having difficulties.

7. After completing the spreadsheet, save the file onto diskette (always use the reporting bank's assigned short name as spreadsheet filename). Both the signed copy and the validated spreadsheet version of the Monthly Statement of Assets and Liabilities should be submitted to the Bank Supervision Department before or on the 10th of the following month.

8. NOTE: do not change the spreadsheet in any way i.e, avoid using /Move. /Worksheet Delete commands or any other commands which can result in damages to formulas in the spreadsheet. The only area you may edit is in the input table in columns C and D. Do not alter the test formulas in the validation table.

9. For detailed definition of the items in the Monthly Statement, please refer to Circular M1, a copy of which is included with these instructions in Annex 2.

Bank Supervision Department

**INSTRUCTIONS
FOR
THE MONTHLY REPORT OF ASSETS AND LIABILITIES
OF COMMERCIAL BANKS**

A. SUBMISSION OF REPORT

1. The Monthly Report of Assets and Liabilities of Commercial Banks (hereafter, Monthly Report) is to be completed on the basis of the bank's account balances as of the last business day of the reporting month, and should be submitted by the 15th day of the following month. In the event that the 15th day is not a business day, the report should be submitted by the last preceding business day. The report should be sent to: Manager, Bank Supervision, National Bank of Cambodia (NBC), 22-24 Norodom Blvd., P.O. Box 2), Phnom Penh., Cambodia. The report should be submitted both on paper and in a computer file, in the format provided by NBC.

B. RESIDENT AND NONRESIDENT ACCOUNTS

2. All assets and liabilities must be disaggregated by type of customer into resident and nonresident accounts, to separately identify domestic and foreign assets and liabilities.

RESIDENCY

3. Residency is based on the economic center of interest of the transactor, rather than nationality, currency of denomination, or legal definitions. All enterprises engaging in economic activities on a significant scale in Cambodia should be considered residents. Individuals have centers of economic interest when their principal residences are in Cambodia. If they work overseas for more than a year, individuals typically cease to be residents. But regardless of their centers of economic interest, some transactors in Cambodia are always considered to be nonresidents-particularly, embassies, consulates and their representatives, international organizations, tourists, and persons staying in Cambodia for less than a year. For such special cases, Cambodian-national outside of Cambodia continue to be Cambodian residents.
4. Riel and foreign currency loans to Cambodian residents are part of the domestic assets of a Cambodian commercial bank (that is, a bank operating in Cambodia), but Riel and foreign currency loans to nonresidents are foreign assets of a Cambodian bank. The residency of borrowers is normally clear since the bank is aware of business being conducted in Cambodia or abroad; for loans to individuals below Riel 1,000,000 (or US \$ equivalent), a Cambodian address is sufficient to indicate that the borrower is a resident. Riel and foreign-currency deposits of Cambodian residents are domestic liabilities of Cambodian banks, but Riel and foreign-currency deposits of nonresidents are foreign liabilities of Cambodian banks. Deposits of less than Riel 1,000,000 (or US \$ equivalent) should be classified as resident deposits, if the depositor's address is in Cambodia. These rules apply unless there is clear evidence that the borrower or depositor is a nonresident.
5. Even though all deposits of Cambodian residents are included in the domestic liabilities of the Cambodian banks, separate data on (a) Riel deposits of residents and (b) foreign-currency deposits of residents must be included in the Monthly

Report, since these data are needed for monetary policy purposes. Separate data should also be reported for Riel and foreign currency deposits of nonresidents.

C. DOMESTIC SECTORS

6. Resident institutional units of Cambodia can be disaggregated by type of customer to identify the following domestic sectors:
 - (a) Private sector: individuals, cooperatives, private and mixed enterprises, and social organizations.
 - (b) state enterprises: (refer to list of non-financial public enterprises)
 - (c) government: central, provincial, and district levels
 - (d) commercial banks
7. All categories of the commercial bank's claims on, and indebtedness to, NBC must be clearly identified in the Monthly Report. Claims on NBC include bank clearing balances and other NBC deposits (in Riel or foreign currency) of commercial banks. If NBC debt certificates are issued in the future, commercial bank holdings of such claims will be included. Indebtedness to NBC includes bank liabilities incurred through rediscounting and advances by NBC and possibly other NBC credit facilities for banks.

D. FOREIGN ASSETS AND LIABILITIES

8. The major categories of foreign assets are foreign currency holdings, balances in foreign banks (Nostro accounts), and credits related to foreign trade: trade bills discounted, trade receivables, and credit arising from similar instruments that constitute claims on nonresidents as defined in Section B.
9. All accounts for trade-related credit, such as bills receivable, should be carefully disaggregated by resident and nonresident debtors, to ensure accurate reporting of domestic and foreign assets. Similarly, balances due to or due from foreign banks should be carefully distinguished from balances due to and due from domestic banks.
10. The basic test is that all assets that are direct nonresident obligations to the bank are classified as foreign assets, and all liabilities that are direct bank obligations to nonresidents are classified as foreign liabilities. Care should be exercised in cases where the bank's claims are on residents who, in turn, have claims on nonresidents. From the bank's perspective, such claims are domestic assets. Similarly, liabilities are classified as domestic when a resident has a direct claim on the bank. These rules apply regardless of the currency in which the asset or liability is denominated. All liabilities that are strictly contingent, such as credit commitments and letters of credit, are excluded from the report. Loans to residents that are guaranteed by nonresidents should be classified as domestic loans.
11. In cases where doubts arise, the accounting department of the bank should confer with the Bank Supervision of NBC for the correct classifications and sectorizations. When completed, the Monthly Report should show all assets, liabilities and capital on the bank's balance sheet, as of the end of the reporting month. That is, the various categories of assets, liabilities, and capital should sum to the totals for assets and liabilities plus capital, shown in the report.

E. DOMESTIC LOANS AND DEPOSITS

12. Domestic loans and advances are reported for three broad categories: private sector, state enterprise, and government. Further disaggregations of private-sector and state-enterprise credit are required, as shown on the report form. Some categories may not apply to your bank at present. Total amounts for loans and advances in foreign currency are to be reported separately for each of the three major credit categories.
13. Domestic deposits are reported in four broad categories: current accounts (demand deposits, or sight deposits), savings deposits, fixed deposits, and foreign currency deposits of residents. Current accounts are further disaggregated by sector (private, state enterprise, and government), and a separate subcomponent is reported for certified checks (bank drafts and cashier's checks, or similar instruments).
14. Any deposits that are not created, exchanged, and liquidated on terms agreed to by the bank and depositors should be classified in the category of resident deposits. Such deposits (for example, import deposits, stabilization funds, blocked deposits, compulsory deposits, or similar categories) often arise from government actions, but may also occur because of accumulation of arrears or loan rescheduling agreements.

F. CAPITAL

15. The major capital entries include paid-in capital and surplus (premium on share capital), retained earnings, and the profit or loss that has not been transferred to the capital account in the bank's balance sheet. Subordinated debt is long-term debt that is subordinated to all other bank debt in order of repayment. At maturity, such debt may be convertible into stock.

G. PROVISIONS

16. Provisions for loan losses are allowances to cover potential nonpayment of interest and principal on loans. These provisions are in accordance with the rules for prudential regulation. General provisions are allowances provided to cover general losses arising from losses from loans, trading in foreign exchange and securities and other possible sources.

H. VALUATION

17. All assets and liabilities denominated in foreign currency should be translated into riel amounts, by using the market exchange rates quoted on the last business day of the report period (end of month). The counterpart of all valuations made to these accounts, or the profits or losses resulting from the changes in the exchange rate of the riel, should be aggregated and recorded as valuation adjustments. These valuation adjustments are treated as items in the capital account because they have a direct impact on the level of capital and reserves.