

КЫРГЫЗ
РЕСПУБЛИКАСЫНЫН
УЛУТТУК БАНКЫ



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NATIONAL BANK
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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

About accounting of exchange rate according
to IAS 21 "The Effects of Changes in Foreign exchange rate"

Dear Sirs and Madams,

Currently, the National Bank of the Kyrgyz Republic is experiencing difficulties in using IAS 21 "The Effect of Changes in Foreign Exchange Rate".

Monetary policy conducted by central banks is always based on the certain level of the international reserves (cash in foreign currency), which are placed in time deposits, correspondent accounts, securities and other financial assets of first class borrowers. As a rule, central banks service Treasury accounts in foreign and domestic currencies, make payments and convert currencies for settlements made by a Government of a country. As a participant in domestic foreign exchange market central bank carries out sale and purchase transaction in the domestic foreign exchange market. Thus, central banks always have to have long foreign position, which is subject to revaluation at the official exchange rate.

The legislation of the Kyrgyz Republic stipulates that 70 per cent of the NBKR net profit goes to the Budget of the Kyrgyz Republic. As we know this is a broadly used practice in many countries. The main difficulty is in this respect is that the distribution of the central banks' net profit calculated based on the requirements of IAS 21 "The Effect of Changes in Foreign Exchange Rate" brings to significant overissue of money in national currency and accordingly contributes to the inflation rate. The problem becomes particularly topical in condition of significant growth in exchange rate of national currency. As a consequence, this distorts the indicators of the monetary policy conducted by the Government and the Central Bank of the Country.

The IMIF recommends to record exchange rate difference resulting from revaluation in the capital accounts with subsequent recording of realized gains or loss from revaluation of foreign monetary assets and liabilities in income and expense accounts to avoid ungrounded emission. The NBKR has adopted the recommendation and records the foreign exchange revaluation in capital accounts with subsequent recognition of the realized and unrealized portions in the income and expense accounts.

The National Bank of Kyrgyz Republic conducts external audit of its financial reporting for compliance with the IAS on an annual basis by “Big Four”. The major problem, which arises during the external audit, is related to applicability of IAS 21 “The Effect of Changes in Foreign Exchange Rate” with respect to recording of revaluation results as income expense of the central bank. For the above stated reason, the NBKR waives the application of this standard, which leads to an audit opinion indicating noncompliance with the LAS.

The NBKR would like to ask you to consider a possibility to develop an alternative treatment for recognition of exchange rate difference in IAS 21 “The Effect of Changes in Foreign Exchange Rate” for central banks, which transfer their profit (fully or partly) to budget of their countries.

Your faithfully,

Chairman

Sarbanov Ulan

