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## Proper Accounting of Currency Transactions to Reduce Currency Risk

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**Abstract:** It is important to reduce and regulate currency risk based on the study of specific features of currency relations and currency policy in economic development. In this article Currency relations, currency policy, currency regulation and ways of currency risk management in Uzbekistan are analyzed. Also, problems related to proper accounting of foreign exchange transactions in reducing foreign exchange risk, as well as practical aspects of reflecting foreign exchange transactions in accounting records in commercial banks are highlighted.

**Key words:** currency relations, currency policy, currency regulation, currency control, term currency operations, forward, futures.

### Introduction

of the President of the Republic of Uzbekistan dated September 2, 2017 "On the first measures to liberalize the currency policy" No. PF - 5177 further liberalization of the foreign exchange market, free sale of foreign currency by resident individuals to currency exchange offices of commercial banks and purchased in conversion departments the currency can be purchased by transferring it to international payment cards and used abroad without any restrictions.

Also, in the Decree of the President of the Republic of Uzbekistan dated January 17, 2019 No. PF-5635 "On the State Program for the Implementation of the Strategy of Actions in Five Priority Areas of Development of the Republic of Uzbekistan in 2017-2021 in the Year of Active Investments and Social Development" "Currency Regulation "In the newly revised draft of the Law on" inventory of legal documents related to the sector, regulation of all aspects related to the implementation of foreign exchange operations while reducing the norms as much as possible, based on an in-depth study of international experience and taking into account the needs of entrepreneurs, foreign exchange operations simplifying the regulation of foreign exchange, strengthening the guarantee of the right of individuals and legal entities to freely use their currency funds, taking into account the economic interests of the country, regulating operations related to capital movements, further improving and liberalizing the activity of the foreign exchange market, obtained as a result of the activities of non-residents in the Republic of Uzbekistan it is envisaged to further simplify the practice of exchanging funds into foreign currency.

Therefore, it is urgent to identify and consider problems arising in the activities of authorized commercial banks, including currency risks, and to give conclusions and suggestions on minimizing them as much as possible. Therefore, creating a banking system compatible with international banking practices based on the current economic environment, prevention of existing problems in the activity of commercial banks, and improvement of the efficiency of the banks' activities is the demand of the times.

## Literature review

The principles, methods, steps of regulating currency relations have been thoroughly studied by a number of economists in the economic literature. For example, L.N. Krasavina (2002) According to, the regulation of currency relations consists of three stages:

1. Regulation of foreign exchange relations involving private enterprises, national and international banks, which have foreign exchange resources and actively participate in foreign exchange operations;
2. The practice of regulating currency relations carried out by the Ministry of Finance, the Central Bank, other state bodies that regulate currency;
3. The practice of international regulation of currency relations. We believe that there is some confusion in this approach. It consists in the fact that private enterprises, commercial banks are the performers of currency transactions. They do not have the function of regulating and controlling currency relations. Even the commercial banks of Uzbekistan, which are engaged in accounting of export-import transactions, do not have the authority and functions to regulate currency relations. In our opinion, enterprises and banks are active participants in international currency relations and, therefore, are objects of control for state bodies that regulate currency relations.

of the Republic of Uzbekistan "On Currency Regulation" (2003) According to Article 1.1 of Also in this article: "...on the purchase and sale of foreign currency within the limits of the open currency position in the territory of the Republic of Uzbekistan, including on the purchase and sale of foreign currency on the basis of derivative financial instruments directly among themselves, with their clients and through currency exchanges, also has the right to carry out transactions in the international currency markets. Doctor of Economics, Professor L.N. Krasavina (2002) : "Term currency contracts (forwards, futures) are currency relations performed on the basis of the condition of delivery of a certain amount of currency by the parties after a certain period at the exchange rate determined on the day of conclusion of the transaction." - described as.

Samuelson and Nordhaus (1997), the foreign exchange market is a market where the currencies of different countries are traded, and it is very necessary to regulate it.

Fedyakina (2005), the foreign exchange market is the market of foreign currencies, in which government institutions, the Central Bank and other banks, firms, funds and individuals exchange the currency of one country for the currency of another country by trading financial assets expressed in foreign currency.

The currency market is divided into spot and term currency markets according to the term of currency transactions (Dmitrieva, 2015). In the spot market, the parties enter into an agreement on the immediate delivery of foreign currency. In this case, the spot transaction provides for settlements to be made within two bank business days after the date of its conclusion. The forward currency market is characterized by the fact that transactions in it have a certain price and amount, as well as a fixed period.

Bobokulov (2007) in his monograph on "Ensuring the stability of the national currency: problems and solutions" studied the issue of improving the regulation of open currency positions of commercial banks within the currency policy of the Central Bank. According to him, it is necessary for the Central Bank to monitor the amount of open currency positions of commercial banks on a daily basis.

The reason why the normative level of restrictions on the open currency positions of commercial banks is not sharply different in all countries is that the authors of the methodology developed for the purpose of regulating the open currency positions of commercial banks are considered to be the experts of the international Basel Committee (Usmonova, 2013). As of August 31, 2005, the Central Bank of the Republic of Uzbekistan will establish the following restrictions on open currency positions of commercial banks:

- the amount of open currency position of a commercial bank in one currency should not exceed 10% of its regulatory capital;
- the final net currency position of a commercial bank in all currencies should not exceed 20% of its regulatory capital.

The normative level of restrictions used in the banking practice of our republic is close to the normative levels of restrictions used in Western European countries.

Noskova (1998), balance sheet balances of commercial bank loans in foreign currency are taken into account in determining the open currency position. In this case, the loans given by the bank in foreign currency do not lead to a change in the amount of the open currency position in the case of non-conversion, since the amount in the asset's currency sheets is transferred from one sheet to another. The classification of loans and the presence of overdue interest have no significance from the point of view of determining the bank's open currency position. This is because credit ratings indicate the level of credit risk, but not the level of currency risk. Considers it expedient to use an account forward when reducing the amount of open currency positions of a commercial bank. According to him, forward contracts do not actually involve currency exchange operations. Because the obligation to deliver the underlying asset at the time of signing the contract is not imposed on the parties involved in the transaction. The amount of the contract is defined as the sum of the difference between the initial starting rate of the base currency and its rate determined for the future period.

Lavrushin's (2007) textbook *Bankovskoe delo*, setting limits on open currency positions of commercial banks is recognized as an administrative method of currency risk management. In this textbook, it is written that if a certain amount of loss is set for the operating day in a commercial bank and the amount of loss is closed when it reaches the specified level, then the amount of demands and obligations arising during this period may not be included in the open currency position of the bank.

Although the duration of spot operations is very short, they have a strong impact on the open currency position of a commercial bank. The reasons for this are as follows (Shulgin, 2003):

- more than 90 percent of spot operations are carried out in currencies with a free floating regime;
- the volume of spot operations is very large, its one-day volume is at least 2 trillion. exceeds US dollars.

It was also emphasized the need to ensure that the amount of short or long positions in all currencies does not exceed 30 percent of the bank's own funds at the end of the operating day.

The main elements of regulating national currency relations are:

- authorization procedure for carrying out operations with currency values;
  - prohibition of foreign currency circulation among residents in the territory of this country;
  - establishment of the procedure for granting permission for the balance of funds in accounts in foreign banks;
  - introduction of a procedure for the compulsory sale of a part of the income in foreign currency.
- Regulation of currency relations in any country is carried out through currency restrictions and currency controls. (Platonova, 2016)

Research methodology

Economic research methods were used to systematically analyze the data using a systematic approach to studying the problem.

The methodological basis of the research is formal logic, statistical and comparative analysis methods, systematization, classification and effort assessment, grouping, comparative method and content analysis, graphical interpretation methods, etc.

### **Analysis and results**

The main currency operations carried out in commercial banks :

- registration and accounting of foreign trade contracts;
- trade financing operations, letters of credit, guarantee operations;
- international money transfers;
- operations with cash foreign currency;
- conversion operations.

In the audit of foreign exchange transactions, special attention is paid to the activities of the foreign exchange offices in commercial banks, to the service of the export and import activities of the

department, and to the operations of revaluation of foreign currency funds. At the same time, the main attention is paid to monitoring the following operations:

- procedure for opening currency accounts and completeness of documents;
  - correct accounting of accounts opened for accounting of export and barter contracts;
  - timely and correct transactions in foreign currencies;
  - calculation of income and expenses on currency transactions and correct accounting.
  - timely and correct revaluation of foreign currency funds in the foreign currency account:
  - strict adherence to the decisions of the Cabinet of Ministers and normative documents of the Central Bank in considering export and import contracts;
  - checking that foreign currency and payment documents in foreign currency received from other banking institutions through cashiers have been fully received, and that the procedure for receiving shipments in foreign currency from communications bodies is followed;
  - compliance with the current rules and regulations for the sale of foreign currency and payment documents in foreign currency to residents;
  - checking the correct organization of the work of the currency exchange branch, including timely and correct recording of the currency in the ledger;
  - the correctness of the calculation of the amount of foreign currency to be sold, the fact that foreign currency sales operations are recorded in a timely and correct manner in the book of the appropriate form for keeping the account of cash foreign currency sold;
  - that the currency exchange branch for sale is correctly indicated in the accounting book of the foreign currency sold;
  - that the permission to take foreign currency out of the republic is properly formalized;
  - brokerage fee charged when currency is sold;
  - observance of the established procedure for selling foreign currency to foreign lots and enterprises for the expenses of a business trip;
  - correctness and reasonableness of operations on sending foreign currency and payment documents in foreign currency to other banks of the Republic of Uzbekistan or directly to a foreign bank;
- Collection operations related to cash foreign currency and payment documents are audited on the basis of the following documents:

- correctness of accepting cash foreign currency and payment documents in soums and foreign currency for collection from residents and non-residents;
- correct formalization of collection operations and their accounting in the relevant accounts.

One of the main operations of currency transactions in banks is money transfers in foreign currency, and for them, accounts 19997 (840) accounting for bank claims and 29896 (840) accounting for bank liabilities have been opened. During the inspection of these operations, the procedure for their correct acceptance and issuance of money transfers is also checked. In particular, at the end of the day, it is necessary to check the correct closing of accounts 19997(840) and 29896(840) and the absence of balances. The results of the audit of currency operations include the following deficiencies:

According to Currency exchange branch practices, there are no signatures confirming that the client has received the money;

In the branch premises, the signature of the head of the retail service sector is not available on transfers from USD 2,000 to USD 5,000;

Some of the transfers for funds above 5000 USD do not have the signature of the branch manager; The submitted application for exchange of the national currency in the client's account with the foreign currency conversion method was sent for execution without the bank manager's signature. Swap deal when being compiled, this deal in the eye not caught circumstances in their accounts swap deal at the end to exchange must has been currency in the amount the following accounting transfer done increase through reflection will be:

a ) if, bank swap of the deal the first part according to foreign people currency purchase doing if or two foreign people currency between swap in the deal all USA dollar with participation in deals - US dollars, euros with participation in transactions - euro (U.S dollar with from the deal except), England pound sterling with participation in deals – 1 bs sterling (US dollar and euro with of

transactions except) and Switzerland frank with Yen in the agreement - Switzerland frankincense purchase doing if :

Dt 92736 - "Purchase on swap terms";

Ct 96373 - "Purchase counter account with swap terms";

b) if the bank is selling foreign currency under the first part of the swap agreement or in the swap agreement between two foreign currencies, in all transactions involving US dollars - US dollars, in transactions involving euros - euros (except for transactions with US dollars), in transactions involving British pounds - pound sterling (except for transactions with US dollars and euros) and in the case of yen transactions with Swiss francs - if selling Swiss francs:

Dt 92732 - "Sale on swap terms";

Ct 96371 - "Contra invoice of sale with swap terms".

After the swap contract is concluded, the initial currency exchange takes place. The following accounting transfers are performed:

a) if the bank is buying foreign currency under the first part of the swap agreement, and in the case of a swap agreement between two foreign currencies, the following transfer is made in the foreign currency book:

Dt 10301 - "Withdrawal from the representative account at the Central Bank - Nostro" (if the swap agreement was concluded with the Central Bank)

or

10501 - "Withdrawals from representative accounts in other banks - Nostro" (if the swap agreement is concluded with another commercial bank)

or

20200 - "Deposits on demand" (if the swap contract is concluded with the client);

Ct 17101 - "Currency position accounts";

the following transfer is made in the soum book (or in the case of a swap between two foreign currencies - in the foreign currency book):

Dt 17101 - "Currency position accounts";

Ct 10301 - "Received from the representative account at the Central Bank - Nostro" (if the swap agreement was concluded with the Central Bank)

or

10501 - "Withdrawals from representative accounts in other banks - Nostro" (if the swap agreement was concluded with another commercial bank)

or

20200 - "Deposits on demand" (if the swap contract is concluded with the client);

b) if the bank is selling foreign currency under the first part of the swap transaction or in the swap transaction between two foreign currencies, the following transfer is made in the foreign currency book:

Dt 17101 - "Currency position accounts";

Ct 10301 - "Received from the representative account at the Central Bank - Nostro" (if the swap agreement was concluded with the Central Bank)

or

10501 - "Withdrawals from representative accounts in other banks - Nostro" (if the swap agreement was concluded with another commercial bank)

or

20200 - "Deposits on demand" (if the swap contract is concluded with the client);

the following transfer is made in the soum book (or in the case of a swap between two foreign currencies - in the foreign currency book):

Dt 10301 - "Withdrawal from the representative account at the Central Bank - Nostro" (if the swap agreement was concluded with the Central Bank)

or

10501 - "Withdrawals from representative accounts in other banks - Nostro" (if the swap agreement is concluded with another commercial bank)

or

20200 - "Deposits on demand" (if the swap contract is concluded with the client);

Ct 17101 - "Currency position accounts".

After the conclusion of the swap agreement, the authorized bank calculates the brokerage fee for providing currency swap transactions and reflects it through the following accounting transaction:

Dt 16401 - "Calculated brokerage fees and fees for rendered services";

Ct 45924 - "Commission and other income from services".

The following accounting transfer is made when paying (extinguishing) the brokerage fee by the client:

Dt 10501 - "Withdrawals from representative accounts in other banks - Nostro" (when extinguished by another bank)

or

20200 - "Deposits on demand" (when canceled by the client);

Ct 16401 - "Calculated brokerage fees and fees for rendered services".

On the last working day of each month, as well as when swap transactions are closed, in order to determine the profit or loss received by the authorized banks as a result of swap transactions, changes in exchange rates, the sum of the transaction is revalued by multiplying the amount of the transaction by the difference between the current exchange rate on the date of the foreign currency revaluation and the final exchange rate of the swap transaction. is evaluated. In this case, the following accounting transfer is made:

a) if unrealized profit is being determined during revaluation:

Dt 16913 - "Unrealized profit as a result of revaluation - Swaps";

Ct 45405 - "Profit in foreign currencies on transactions concluded with derivative instruments";

b) if the revaluation reveals unrealized losses:

Dt 55306 - "Damages incurred in foreign currencies on transactions concluded with derivative instruments";

Ct 22811 - "Unrealized losses on swaps".

On the closing date of the swap contract, the currencies are exchanged again (the deal is closed). In this case, the following accounting transfers are made:

a) if the bank is repurchasing foreign currency under the second part of the swap agreement or in the case of a swap agreement between two foreign currencies, the following transfer is made in the foreign currency book:

Dt 10301 - "Withdrawal from the representative account at the Central Bank - Nostro" (if the swap agreement was concluded with the Central Bank)

or

10501 - "Withdrawals from representative accounts in other banks - Nostro" (if the swap agreement is concluded with another commercial bank)

or

20200 - "Deposits on demand" (if the swap contract is concluded with the client);

Ct 17101 - "Currency position accounts";

the following transfer is made in the soum book (or in the case of a swap between two foreign currencies - in the foreign currency book):

Dt 17101 - "Currency position accounts";

Ct 10301 - "Received from the representative account at the Central Bank - Nostro" (if the swap agreement was concluded with the Central Bank)

or

10501 - "Withdrawals from representative accounts in other banks - Nostro" (if the swap agreement is concluded with another commercial bank)

or

20200 - "Deposits on demand" (if the swap contract is concluded with the client);

b) if the bank is reselling foreign currency under the second part of the swap agreement or in the case of a swap agreement between two foreign currencies, the following transfer is made in the foreign currency book:

Dt 17101 - "Currency position accounts";

Ct 10301 - "Received from the representative account at the Central Bank - Nostro" (if the swap agreement was concluded with the Central Bank)

or

10501 - "Withdrawals from representative accounts in other banks - Nostro" (if the swap agreement is concluded with another commercial bank)

or

20200 - "Deposits on demand" (if the swap contract is concluded with the client);  
the following transfer is made in the soum book (or in the case of a swap between two foreign currencies - in the foreign currency book):

Dt 10301 - "Withdrawal from the representative account at the Central Bank - Nostro" (if the swap agreement was concluded with the Central Bank)

or

10501 - "Withdrawals from representative accounts in other banks - Nostro" (if the swap agreement was concluded with another commercial bank)

or

20200 - "Deposits on demand" (if the swap contract is concluded with the client);

Ct 17101 - "Currency position accounts".

An authorized bank realizes an unrealized profit or an unrealized loss when the swap contract is closed and all obligations are fulfilled by the customer under the transaction. In this case, the following accounting transfer is made:

upon realization of unrealized profit:

Dt 17101 - "Currency position accounts";

Ct 16913 - "Unrealized profit as a result of revaluation - Swaps";

when realizing the unrealized loss:

Dt 22811 - "Unrealized losses on swaps";

Ct 17101 - "Currency position accounts".

After closing the swap contract, at the same time, the authorized bank closes the contingency accounts of this transaction. In this case, the following accounting transfer is made:

a) if the bank purchased foreign currency under the first part of the swap agreement or in accordance with the swap agreement between two foreign currencies:

Dt 96373 - "Purchase counter-invoice with swap terms";

Ct 92736 - "Purchase on swap terms";

in accordance with the swap agreement between two foreign currencies:

Dt 96371 - "Contra invoice of sale with swap terms";

Ct 92732 - "Sale on swap terms".

The Dealer may not enter into swap agreements that go beyond the scope of the Agreement on the performance of the Dealer's functions concluded with the currency exchange in the Trade system.

Disputes related to the conclusion and execution of swap agreements, as well as the regulation of obligations, are considered in accordance with the procedure established by law.

**Conclusion**

As a result of the research, the following conclusions can be stated:

the widespread use of unsecured letter of credit and documentary collection in the banking practice of developed countries is explained by the fact that payment is fully guaranteed in letters of credit, and in documentary collection, goods documents are issued after payment is made;

in recent years, the very low interest rate of 70% of commercial banks paid to term deposits of individuals and legal entities has a negative impact on the ability of commercial banks to attract term deposits in foreign currencies;

In the course of the study, several suggestions were developed, which can be used in the future to achieve positive results.

In order to encourage the opening of "Vostro" representative accounts of foreign banks in commercial banks of Uzbekistan, the following conditions should be created:

- it is necessary to ensure timely and complete exchange of funds in soums in "Vostro" representative accounts of foreign banks into main reserve currencies or national currencies of these countries;

- foreign banks should be allowed to choose the bank they want to establish representative relations;

- it is necessary to allocate lending limits to foreign banks by the banks of our republic.

Lending limits play an important role in ensuring the continuity of payments made through Vostro representative accounts of foreign banks in soums.

2. It is necessary to introduce the procedure for determining the base rate (15%) of the mandatory reserve requirement set by the Central Bank of the Republic of Uzbekistan for foreign currencies based on the annual rate of LIBOR.

The level of mandatory reserve rates set by the Central Bank of the Republic of Uzbekistan for deposits of commercial banks in foreign currencies is high. In addition, the amount of mandatory reserve allocations is withdrawn from "Nostro" representative accounts of banks and deposited in the balance sheet of the Central Bank.

3. It is necessary to increase the amount of settlement service and the amount of income to exporters and importers with the comprehensive use of international settlement forms (payment orders, checks, documented letters of credit, net and documentary collections).

The issue of which international payment form to use is decided by the exporter and importer. However, commercial banks have the opportunity to use two forms of international settlements and increase the amount of income they receive.

4. It is necessary to increase the level of diversification of foreign exchange reserves and reduce the volume of open currency positions in order to avoid an increase in the level of foreign exchange risk arising in lending by banks.

5. In the practice of banks of the Republic of Uzbekistan, the non-existence of the form of forfeiture lending is considered one of the shortcomings inherent in this practice, and in our opinion, it is necessary to introduce an improved procedure for issuing forfeiture loans based on the guarantee of commercial banks of the Republic.

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