

**RBI/2004/127**  
**DBOD. No. BP. BC. 71/ 21.04.018/ 2003-2004**

**March 31, 2004**

All Scheduled Commercial Banks  
(excluding RRBs and LABs)

Dear Sir,

**Accounting Standard - 11 on accounting for**  
**'The effects of changes in foreign exchange rates'**

Please refer to our circular DBOD. No. BP. BC. 93 / 21.04.018/ 2002- 03 dated April 8, 2003, advising banks to follow the guidelines prescribed in Circular DBOD. No. BP.BC. 68/ 21.04.018/ 96 dated June 5, 1996 (copy enclosed) for finalising the accounts for the year ended March 31, 2003. Banks are advised to follow the guidelines contained in the circular dated June 5, 1996, referred to above, for finalizing the accounts **for the year ended March 31, 2004 also.**

Yours faithfully,

Sd/-

**(C.R.Muralidharan)**  
Chief General Manager-in-Charge

Encls : as above

All Commercial Banks (excluding RRBs)

Dear Sir,

**Accounting Standard 11 (Revised)**

Some of the banks have sought our advice regarding the applicability of AS 11 (Revised) for (i) revaluing foreign currency assets and liabilities and revenue items and booking of foreign exchange profit/loss for foreign exchange transactions done in India and (ii) for the purpose of translation of assets and liabilities of foreign branches of Indian banks.

2. We have examined the matter and we observe that the revised Accounting Standard 11 on accounting for effects of changes in foreign exchange rates has come into effect for accounting periods commencing on or after April 1 1995. On examining the Revised AS 11 we find that the standards are not in accordance with FEDAI guidelines or prudential practices to be followed by the banks. We have accordingly taken up the matter with the Institute of Chartered Accountants of India. Meanwhile the banks may adopt the following guidelines for finalising the accounts for 1995-96.

i) All foreign exchange transactions in India should be valued as per guidelines issued by the Foreign Exchange Dealers Association of India. This will apply to all commercial banks who are authorised to deal in foreign exchange.

ii) Indian banks having foreign branches are required to translate the financial statements of their branches abroad for incorporation in the financial statements. These banks should adopt the following procedures:

- (a) all assets and liabilities, both monetary and non-monetary of the foreign entity should be translated at the closing rate.
- (b) income and expense items of the foreign branches should also be translated at the closing rate.
- (c) resulting exchange profits on consolidation should not be taken to Profit and Loss Account but kept in a separate account on the liabilities side under Schedule 5 "Other liabilities". However, any exchange loss on consolidation should be debited to the Profit and Loss Account.

3. Please acknowledge receipt.

Yours faithfully,  
sd/-

**V. Rangarajan**  
**Chief General Manager**