

**Foreign Currency transactions and loss or
gain by Exchange Rate variations**

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Indian Government Accounting Standard on Foreign Currency transactions and Loss or Gain by Exchange Rate Variation

The standards, which have been set in bold italic type, should be read in the context of the explanatory paragraphs in this Standard, which are in plain type, and in the context of the "Preface to the Indian Government Accounting Standards." The Indian Government Accounting Standards are not intended to apply to immaterial items.

Introduction

1. Government Accounting Rules, 1990 require that the accounts of the Government shall be maintained in Indian currency i.e., Indian rupees. Indian rupee is the reporting currency for the financial statements of the Government. All transactions of the Union and State Governments taking place in other countries are passed periodically by the Indian Embassies/ Missions to India and brought to account finally in the Indian books after they have been converted into rupees. All transactions taking place with foreign Governments or foreign entities or international agencies in foreign currency are also to be recorded in the reporting currency applying exchange rate on the date of transaction.

2. The missions and embassies of India abroad incur expenditure on their operations including the pay and other entitlements of the officials employed there. They also make payments on behalf of other Ministries and Departments relating to defence, commerce, education as well as public sector undertakings and State Governments. These involve foreign currency transactions and loss or gain due to difference between exchange rate applicable and exchange rate internally adopted by Government like official rate of exchange or salary rate of exchange. Government may use various rates of exchange internally determined for foreign currency transactions that might give rise to loss or gain for accounting purpose.

3. Under Article 292 of the Constitution of India, the executive power of the Union extends to borrowing upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by the Parliament by law and to the giving of guarantees within such limits, if any, as may be so fixed. The Union Government may have bilateral and multi-lateral transactions involving foreign currency. This may involve borrowing or lending involving repayment of principal and payment of interest denominated in foreign currency and loss or gain by exchange rate variation.

4. In case of foreign currency loans to various projects, particularly by the World Bank, there are different procedures for disbursement. These are (i) Reimbursement through Special Account, (ii) Reimbursement outside Special Account, and (iii) Direct payment/ Commitment procedure. The Direct payment/ Commitment procedure involves direct payment of foreign currency to contractor/ supplier/ consultants from the loan/ credit funds of

the World Bank, as opted by the project implementing agency. The rupee equivalent of the foreign currency paid directly from the loan/credit is recoverable from the project implementing agency. However, under externally aided projects the Union Government releases 'additional central assistance towards disbursements under this procedure. But the rupee amount of the foreign currency paid directly from the loan/credit is recoverable from the project implementing agency.

5. Government may float or may enter into agreement with designated bank(s), for example, the State Bank of India to float schemes involving foreign currency denominated bonds/ deposits, such as 'The NRI Bonds', 'India Millennium Deposits' and 'Resurgent India Bonds' for subscription by the Non-Resident Indians, Overseas Corporate Bodies or Banks acting in fiduciary capacity on their behalf. The proceeds may not flow into the Consolidated Fund and are either kept in the Public Account as in the case of the NRI Bonds or acquired by the Reserve Bank of India. Rupees securities issued to the international financial institutions such as the Asian Development Bank, International Bank of Reconstruction and Development (World Bank), International Development Association, International Fund for Agricultural Development, African Development Bank are accounted for under 'internal debt' of the Central Government that may require repayment on encashment of rupee securities in convertible currencies giving rise to exchange difference.

6. Foreign currency transactions for acquisition of Special Drawing Rights (SDRs) at the IMF are accounted for under Special Deposit and Accounts-SDR at the IMF-Exchange Rate.

Objective

7. Government may have foreign currency transactions and loss or gain arising due to exchange rate variations. The objective of this standard is to provide accounting and disclosure requirements of foreign currency transactions and financial effects of exchange rate variations in terms of loss or gain in the financial statements. It also deals with the requirements of disclosure of foreign currency external debts and the rate applied for disclosure.

8. The principal issues in accounting and reporting for foreign currency transactions are to decide which exchange rate to apply and how to recognise in the financial statements the financial effects of exchange rate variations in terms of loss or gain.

Scope

9. The Accounting Authority which prepares and presents the financial statements of the Government under the cash basis of accounting, as defined in the Government Accounting Rule 21 of GAR 1990 and Government Financial Rule 68 of GFR 2005 should apply this Standard:

(a) in accounting and disclosure for transactions in foreign currencies;

- (b) *in accounting and disclosure for financial effects of exchange variations in terms of loss or gain by exchange rate variation, and*
- (c) *in disclosure of foreign currency external debts and the rate(s) applied for disclosure.*

10. *Financial statements should not be described as complying with this Standard unless they comply with all its requirements.*

11. This Standard shall apply to foreign currency transactions of the Union Government as well as that of the State Governments.

12. This Standard deals with presentation of expenditure and revenue in terms of loss or gain by exchange rate variations arising from foreign currency transactions. It also deals with disclosure of foreign currency external debt.

13. This Standard does not deal with disclosure requirements of external guarantees. The requirements of disclosure of details of subsisting external guarantees in terms of Indian rupees on the date of financial statements have been dealt with in IGAS1 'Guarantees given by Governments: Disclosure Requirements'.

14. The Reserve Bank of India is the custodian of foreign currency and foreign exchange reserves and this Standard does not deal with foreign currency reserves.

Definitions

15. *In this standard, unless the context otherwise requires-*

Accounting authority *is the authority which prepares the financial statements of the Government;*

Capital account *means a division of Government accounts wherein receipts and expenditure of capital nature are accounted for;*

Closing rate *is the exchange rate on the last working day of the period for which the financial statement is prepared;*

Consolidated Fund of India or Consolidated Fund of State *means the Consolidated Fund referred to in Article 266 (l) of the Constitution of India;*

Cross currency swap agreement *is an financial agreement between two parties to exchange a stream of principal and interest payments in one currency for a stream of principal and interest payments in another currency;*

Direct Payment Procedure involves direct payment of foreign currency to contractor / supplier / consultants, from the loan / credit funds of the World Bank, as opted by the project implementing agency;

Exchange rate is the ratio for exchange of two currencies;

Exchange rate variation means change in the ratio for exchange of two currencies;

Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates;

External guarantee means a guarantee against liability denominated in foreign currency;

Financial Statements mean the Annual Finance Accounts of the Governments;

Foreign currency means a currency other than the reporting currency of the Government;

Forward rate means the specified exchange rate for exchange specified by the terms of agreement for exchange of two currencies at a specified future date;

Government means the Central (Union) Government or a State Government, or a Union Territory Government;

Government accounts mean the form and divisions of accounts and accounting records in which all transactions of Government are accounted for;

Guarantee is an accessory contract, by which the promisor undertakes to be answerable to the promisee for the debt, default or miscarriage of another person, whose primary liability to the promisee must exist or be contemplated;

Indian currency means currency which is expressed or drawn in Indian rupees;

Official rate of exchange means official accounting rate of exchange between Indian rupees and foreign currencies determined and issued by the Ministry of External Affairs, Government of India periodically;

Public Account means the Public Account of India referred to in Article 266(2) of the Constitution of India;

Public Sector Undertaking means government companies incorporated under the Companies Act, 1956 and Statutory Corporations set up under the specific Acts of Parliament and State Legislatures, as the context may imply;

Reporting currency means Indian Rupees;

Revenue account means a division of Government accounts wherein receipts and expenditure of revenue nature are accounted for;

Salary Rate of Exchange means the rate of exchange between the reporting currency and foreign currency fixed by Ministry of External Affairs, Government of India for disbursement of salary of the officials posted at Mission abroad; and

Special Drawing Right means the international reserve asset created by the International Monetary Fund.

Foreign Currency Transactions

16. A Foreign currency transaction of Government is a transaction which is denominated in or requires settlement in a foreign currency. This may include:

- (a) transactions arising due to operations of the missions and embassies abroad and receipts and payments made by them including those on behalf of other Ministries and Departments relating to defence, commerce, education as well as public sector undertakings and State Governments;
- (b) bilateral and multi-lateral foreign currency transactions involving borrowing or lending including debt servicing;
- (c) purchasing/ selling goods or services where purchase/ sale price is denominated in foreign currency;
- (d) transactions arising from the schemes involving foreign currency such as 'The NRI Bonds', the flow of which goes to Government account;
- (e) transactions for acquisition of Special Drawing Rights at the International Monetary Fund and quota contributions to IMF and the transactions under Financial Transaction Plan;
- (f) rupees securities issued to the international financial institutions which are accounted for under the head internal debt of the Central Government but requiring repayment on encashment of rupee securities in convertible currencies.

17. A foreign currency transaction of Government shall be reported in the reporting currency by applying to the foreign currency amount, exchange rate between the reporting currency and the foreign currency at the date of receipts and payments.

18. The exchange rate at the date of receipts and payments is the rate as determined by the Government of India for the purpose viz., salary rate, official rate, etc. or else the rate as indicated by the Reserve Bank of India in its buying and selling rate as may be appropriate, issued everyday.

Treatment of Loss or Gain by Exchange Rate Variation

19. Paragraphs 20 to 24 set out the accounting treatment required by this Standard with respect to loss or gain by exchange rate variations and exchange difference on different types of foreign currency transactions.

20. All losses or gains by exchange rate variation in respect of Government transactions in foreign currencies (except those dealt with paragraphs 23 & 24) shall be recognised as revenue loss or gain.

21. Government may have losses or gains by exchange rate variations on its operating activities like operation of its missions abroad as mentioned in paragraph 2 above or due to contractual commitments to bear the financial effect of exchange rate variations as part of its fiscal and economic policy as mentioned in paragraph 4 & 5 above.

22. Loss or gain arising out of transactions for acquisition of Special Drawing Rights at the International Monetary Fund shall be reported in the financial statements.

23. Exchange difference may arise out of Government's financing activities like borrowing of loans denominated in foreign currencies and issuing of rupees securities as mentioned at paragraphs 3 to 6 above. External borrowings of the Government are recorded at the historical rate of exchange i.e., rate of exchange prevailing at the date of transaction. As most of the loans have long repayment period(s), their repayment extends over several years. Meanwhile, exchange rate(s) may undergo significant changes. If the exchange rate is higher at the time of repayment, repayment of loans in Indian rupees exceed the rupee amount of loan drawn.

24. In case repayment of loans, at the end of loan period the balance, if any, remaining in external debt head may be cleared adjusting the same under appropriate revenue or expense head for exchange rate fluctuations or to miscellaneous Government Account head.

Disclosure

25. The financial statements shall disclose rates of exchange adopted internally by the Government for different types of foreign currency transactions including forward contract rate, if any, along with their basis as part of Statement of Accounting Policies.

26. The financial statements shall disclose the following details of foreign loans in the format given in paragraph 30:

(a) loans outstanding on historical cost basis at the beginning and end of the year;

- (b) loans outstanding on closing rate basis at the beginning and end of the year;*
- (c) loans outstanding in foreign currency units at the beginning and end of the year;*
- (d) additions during the year in foreign currency terms and in Indian Rupee along with the rate of exchange adopted;*
- (e) discharge during the year showing separately the amounts in foreign currency units, on historical basis and current rate of exchange basis;*
- (f) loss or gain on repayment of loans due to variation of exchange rate;*
- (g) amount outstanding at the end of the year in foreign currency units, on historical basis and on closing rate basis;*
- (h) interest paid on external debt; and*
- (i) closing rate of exchange applied.*

27. *Financial statements shall disclose in the notes the following:*

- (a) category-wise gross figure of loss and gain by exchange rate variation for the financial year;*
- (b) loss and gain by exchange rate variation separately for Capital Head transactions and Revenue Head transactions;*
- (c) amount of loan and exchange difference in respect of fully repaid loans; and*
- (d) amount of loss or gain, if any, on cross-currency swap agreements.*

28. Category-wise foreign currency transactions includes those that are mentioned at paragraph 16 (a) to (f).

Effective Date

29. This Indian Government Accounting Standard shall be effective for financial statements for the periods commencing from the 1st April subsequent to the date of notification of the standard by Government.

Formats for disclosure

30. Format for disclosure of details of foreign loans as stipulated in paragraph 26 above:

Description of Loan	Amount outstanding at the beginning of the financial year			Additions during the financial year			Discharge during the financial year		
	Foreign Currency Units	On historical cost basis (Rs)	On closing rate basis (Rs)	In foreign currency (Units of foreign currency)	Rate of Exchange	In Rs.	In foreign currency Units	On historical cost basis (Rs)	On Current rate of exchange basis (Rs.)
1	2	3	4	5	6	7	8	9	10

Loss or Gain on repayment of loans due variation in exchange rate (Rs.)	Amount outstanding at the end of the year			Interest paid on debt raised outside India	Closing rate applied
	Foreign currency Units	On historical cost basis (Rs.)	On closing rate basis (Rs.)		
11= (9) – (10)	12	13	14	15	16