

PRAKAS
ON
REQUIREMENTS IN COMPLIANCE WITH FACTS AND SUBSTANCE

Article 1

In order for banks to give a true and fair view of financial statements and disclosure requirement in consistency with Accounting Principles of International Accounting Standards (IAS) and Cambodian Accounting Standards (CAS), bank must apply the principle of substance over form and interest accounting.

Article 2

The information presented in the financial statement must "reflect the economic substance of events and transaction and not merely the legal form"; it means that accounting must prioritize substance over the form.

Article 3

Generally, banks do not have to use accounting for hiding some transaction, by using a form complying with regulation and law, whereas substance of transaction is not complying with these laws and regulations, particularly, some affected transactions are under the form of long term prepaid lease agreements or purchases fixed assets, but which are in substance means for owners to extract bank capital.

Article 4

In case that NBC discover a transaction where accounting does not reflect the economic substance, but just a formal law or requirement, it will be demanded to reclassify this transaction under its real substance.

Article 5

In case the form allows extracting capital by shareholders, to increase profits -or assets or decrease losses -or liabilities, the amount of that transaction will be deducted from equity and net worth, and, if necessary, the bank will have to be recapitalized.

Article 6

Without prejudice of article 6, in this case NBC may take sanctions according to article 33 of the Law on the Organization and Conduct of The National Bank of Cambodia and article 52 of the law on Banking and Financial Institutions.

Article 7

The banks expenses and income accounting must comply with CAS that is the same for IAS. Interest accounting defines as follows:

- Revenue is recognized when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliability;
- Interest should be recognized on a time proportion basis that takes into account the effective yield of the asset;
- Recognition of interest revenue and expense is essential in determining the profitability of a bank;
- Interest revenue is recognized on an accrual basis, except in the case of non-performing and non-restructured loans.

Article 8

To provide a high-level information quality, commercial banks must record on a daily basis:

- Interest paid and received by/from customers, banks and all other debtors and creditors.
- Amortization of fixed assets and other assets if necessary.

Article 9

The General Direction, the General Secretariat, the General Inspection, the General Cashier, all Departments of the National Bank of Cambodia, and all Banking and Financial Institutions under of the National Bank of Cambodia's supervisory authority shall strictly implement this Prakas.

Article 10

This Prakas shall have effect from the signing date.

Phnom Penh, 09 March 2004

The Governor

Signed and Sealed: **Chea Chanto**