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Reverse Transactions

**Prepared by the Statistics Department
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REVERSE TRANSACTIONS

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The views expressed in this paper are those of the author and should not be attributed to the International Monetary Fund, its Executive Board, or its management.

Executive Summary

Repurchase agreements (repos) are common in financial markets. The *1993 SNA* classifies these transactions as collateralized loans (para 11.32). The prevalence of on-selling of the borrowed security in financial markets has led to research over a number of years into other possible approaches to recording repo transactions. However, as a consensus among experts has been very slow to emerge, it is proposed that there be no change to the present *SNA* approach, but that the issue remain on the research agenda, and certain clarifications be included in the new manuals consistent with the present advice.

Introduction

A technical paper on reverse transactions were discussed in SNA/M2.04/26 which was presented to the AEG meeting in December 2004. The paper is available at:
<http://unstats.un.org/unsd/nationalaccount/AEG/papers/m2repurchase.pdf>

The AEG took note of the problem without offering any solution, although some members expressed preferences for differing particular treatments. The AEG encouraged the IMF to develop the issue further and present a proposal for a forthcoming meeting.

Proposal

The work on refining the statistics treatment of reverse transactions (repurchase agreements, securities lending without cash collateral, gold swaps, and gold loans/deposits) has been pursued for several years. While progress has been made, especially with regard to possibility of adopting the so-called “four entry approach”, there is insufficient time to resolve the remaining issues before the conclusion of the discussions by the Advisory Expert Group (AEG) in early 2006. Similar considerations apply to the timetable for the revision of the *Balance of Payments Manual*, fifth edition (*BPM5*). Moreover, as reverse transactions also affect monetary and financial statistics, the involvement of statisticians from this area is

an essential part of the process, and, to date, their involvement has not been extensive. Accordingly, it has been decided to place the statistical treatment of reverse transactions on the research agenda, with a view to seeking to obtain a resolution in two or three years. At that time, should a change be envisaged, there are mechanisms in place to adopt a change between changes to the manuals.

This decision represents an endorsement of the status quo for repurchase agreements and gold swaps, i.e., the collateralized loan approach, as explained in *1993 SNA* paras. 11.32, 11.72, and 11.83; *BPM5* para. 418.

However, no mention is made in the *1993 SNA* or *BPM5* of the related cases of securities lending and gold loans/deposits, or the treatment of “shorts” that may arise when an asset acquired under a reverse transaction is on-sold outright. The latter is prevalent in financial markets. Accordingly, the following clarifications are suggested for inclusion in the new manuals:

- a) add explanation of securities lending and gold loans/deposits;
- b) remove the references to security-receiving party not being able to on-sell;
- c) explain the treatment of short positions as a negative asset when an asset acquired under a reverse transaction is on-sold outright.

(These clarifications were discussed in the paper supplied to the previous AEG meeting.)

Points for discussion

- 1. Does the Group agree to continuation of the collateralized loan approach to reverse transactions?*
- 2. Does the Group agree to the proposed clarifications?*
- 3. Does the Group agree with the proposed to keep the treatment of reverse transactions on the research agenda?*