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Inter-secretariat Working Group on National Accounts

For Information

Explanatory Note: Treatment of Cash Collateral in the *2025 SNA* and *BPM7*

Explanatory Note: Treatment of Cash Collateral in the *2025 SNA* and *BPM7*[1]

The treatment of cash collateral in macroeconomic statistics was debated in the context of Guidance Note F.10, with split views expressed in the global consultation as well as in the initial discussions of the Advisory Expert Group on National Accounts (AEG) and the IMF Committee on Balance of Payments Statistics (BOPCOM), but with a clear message to avoid ambiguity (i.e., more than one option). The issue revolves around whether cash margins for financial derivatives and similar cash collateral should be classified as deposits, loans, or other accounts receivable/payable when they are not liabilities of a deposit-taking corporation. Current standards provide mixed guidance and some flexibility. Ultimately, the AEG and BOPCOM agreed to keep the current treatment unchanged, with minor amendments to ensure unambiguous international guidance. This means that cash margins for financial derivatives should always be classified as other accounts receivable/payable when they are not liabilities of a deposit-taking corporation. When they are liabilities of a deposit-taking corporation, they should be classified as deposits. This treatment also applies to other types of cash collateral (except those for reverse transactions), including reserves held by the factor in a factoring arrangement. The supply and receipt of cash under reverse transactions (e.g., securities repurchase agreements, securities lending with cash collateral, and gold swaps) should be classified as deposits (if they are liabilities of deposit-taking corporations) or loans. The treatment of cash collateral will be investigated further as part of the research agenda.

BACKGROUND

1. **The treatment of cash collateral in the macroeconomic statistical standards has been discussed in the context of Guidance Note (GN) F.10.** Views on the treatment were split in the global consultation and in the initial discussions of the Advisory Expert Group on National Accounts (AEG) and the IMF Committee on Balance of Payments Statistics (BOPCOM), but eventually both groups endorsed the proposed way forward as presented in the note Recommendations to Resolve Minor Action Points (Action Point B.4): "*In relation to Guidance Note F.10 on Treatment of Cash Collateral, the lead author would propose updates to the Guidance Note with a consolidated recommendation leaving the current treatment unchanged and suggesting slight draft amendments to incorporate the views expressed by the BOPCOM and AEG*." As agreed during the October 2024 AEG meeting and the November 2024 BOPCOM meeting, the *2025 SNA* and *BPM7* editorial teams have drafted this Explanatory Note to explain the issue and how the guidance will be incorporated in the *2025 System of National Accounts (2025 SNA)* and the *Integrated Balance of Payments and International Investment Position Manual, seventh edition (BPM7).*

DESCRIPTION OF THE ISSUE

2. **This section provides a summary of the treatment of cash margins for financial derivatives and similar cash collateral in the current macroeconomic statistical standards, while a more detailed description is included in the draft GN F.10.** The current standards agree that cash margins

[1] Prepared by the *2025 SNA* and *BPM7* editorial teams.

for financial derivatives and similar cash collateral should be treated as deposits if the debtor's liabilities are included in broad money, and/or they involve the liabilities of a deposit-taking corporation. However, it is not clear if they should be treated as deposits, loans, or other accounts receivable/payable when the debtor's liabilities are not included in broad money, and/or they do not involve the liabilities of a deposit-taking corporation.

3. **The current standards provide mixed guidance on cash collateral pledged in the context of financial derivatives contracts.** This collateral is labeled "repayable margins" in the *2008 SNA* and *BPM6*.[2] The claims arising from these cash payments are considered as deposits if the debtor's liabilities are included in broad money. *BPM6* (paragraph 5.94 (a)) recommends that the claims are classified as other accounts receivable/payable in other cases: "*Repayable margin payments in cash are classified as deposits (if the debtor's liabilities are included in broad money) or in other accounts receivable/payable.*"[3] At the same time, the *2008 SNA* (paragraph 11.124) leaves the classification of the claims in such cases to the discretion of the compiler as deposits or as other accounts receivable/payable: "*Some compilers may prefer to classify these margins within other accounts receivable or payable in order to reserve the term deposits for monetary aggregates.*" The *European System of Accounts (ESA 2010)* departs from the *2008 SNA* and *BPM6* treatment. It requires the recording of loans for "repayable margins" in financial derivatives contracts when the claims are on units other than monetary financial institutions (*ESA 2010*, paragraph 5.136 (d)), thereby establishing the same treatment as for securities repurchase agreements (repos) and securities lending with cash collateral as described in the following paragraph.

4. The current macroeconomic statistical standards provide clear and consistent guidance for the treatment of cash collateral associated to reverse transactions (e.g., repos and securities lending with cash collateral). Paragraphs 5.52 and 7.59 of *BPM6* and paragraph 11.74 of the *2008 SNA* state that those transactions should be treated as a deposit or loan liability for the party receiving cash (the securities lender) and a corresponding asset for the party transferring cash (the securities borrower).The recording of deposits or of loans depends on whether the claim is on deposit-taking corporations and is included in broad money, or not (*BPM6,* paragraphs 5.43 and 5.53; *2008 SNA,* paragraphs 11.59, 11.75, and 17.254).[4] Cash provided in the context of gold swaps is treated analogously to repos and securities lending with cash collateral, either as loans or deposits (*BPM6,* paragraph 5.55; *2008 SNA,* paragraph 11.77).

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[2] The *2008 SNA* and *BPM6* make a distinction between "repayable margins" and "nonrepayable margins". However, the term "nonrepayable margins" is not accurate or used by market participants because all margins are repayable. When cash is used to settle derivative positions, there are no margins but just a transaction in financial derivatives (i.e., "nonrepayable margins" do not exist). Therefore, the *2025 SNA* and *BPM7* will use the term "margins" instead of "repayable margins".

[3] Paragraph 4.49 of the *Monetary and Financial Statistics Manual and Compilation Guide 2016* (*MFSMCG 2016*) provides the same recommendation.

[4] Paragraph 4.75 of the *MFSMCG 2016* provides the same recommendation.

OUTCOME

5. **There were split views within the AEG and BOPCOM when the draft GN F.10 was initially discussed in 2021 with no clear majority emerging for classifying cash margins for financial derivatives and similar cash collateral as either deposits, loans, or other accounts receivable/payable when the debtor's liabilities are not included in broad money, and/or they do not involve the liabilities of a deposit-taking corporation.** This outcome was in line with the mixed views expressed during the global consultation.

6. **The drafting team subsequently updated GN F.10 with a recommendation to allow for a flexible interpretation of the nature of cash margins for financial derivatives and similar cash collateral, thereby leaving it to the compiler to classify them as deposits, loans, or other accounts receivable/payable.** This proposal was circulated to the AEG and BOPCOM for written consultation, in which some members expressed concerns about the flexible approach. They highlighted that this solution would set the wrong precedent for solving disagreements by not taking a clear stance, decrease the value of international guidance, and limit the international comparability of statistics when the classification would be left to the discretion of individual compilers.

7. **Following up on these discussions, the *2025 SNA* lead editor proposed to leave the current treatment unchanged and include slight text amendments to incorporate the views expressed by AEG and BOPCOM members.** The proposal was endorsed by the AEG and BOPCOM as part of the note Recommendations to Resolve Minor Action Points (Action Point B.4). This approach follows the standard procedure where status quo is maintained when the AEG and BOPCOM cannot reach an agreement on changing an existing recommendation. According to the standard procedure, the editorial teams should also attempt to eliminate inconsistencies within and between the standards.

IMPLEMENTATION OF THE OUTCOME

8. **This section describes how the outcome agreed by the AEG and BOPCOM will be implemented in the *2025 SNA* and *BPM7*.** The draft versions of these standards, which were posted in June (*Draft 2025 SNA*) and July (*Draft BPM7*), did not fully incorporate the agreed outcome as they reflected the flexible approach for the classification of cash margins for financial derivatives. This was pointed out in the global consultation process, and as mentioned in the October 2024 AEG meeting and the November 2024 BOPCOM meeting, several adjustments need to be made. The following paragraphs describe how the *2025 SNA* and *BPM7* editorial teams have implemented the approach endorsed by the AEG and BOPCOM, while also adhering to the fundamental principle of ensuring consistency within and across the *2025 SNA* and *BPM7*. The specific text adjustments made to the *Draft 2025 SNA* and *Draft BPM7* are shown in Annexes 1 and 2.

9. **The decision to keep the current standards unchanged means that loans are eliminated as an option for classifying cash margins for financial derivatives when they are not liabilities of deposit-taking corporations[5] because this is not listed as an option in the *2008 SNA* or *BPM6*.** While the *2008 SNA* mentions both deposits and other accounts receivable/payable, *BPM6* only mentions the latter as an option. Therefore, the only solution that is consistent with both the *2008 SNA* and *BPM6* is other accounts receivable/payable. This option has the benefit of offering clear guidance without leaving the classification to the discretion of individual compilers as requested by AEG and BOPCOM members.

10. **To provide general guidance and promote international consistency, this treatment also applies to other types of cash collateral, except those for reverse transactions (see next paragraph).** This means that reserves held by the factor in a factoring arrangement are also treated as deposits (when they are liabilities of a deposit-taking corporation) or other accounts receivable/payable as indicated in paragraph 12.87 of the *Draft 2025 SNA* and in paragraph 5.XX (right after paragraph 5.61) of the *Draft BPM7*.

11. **The *2025 SNA* and *BPM7* will continue to treat the supply and receipt of cash under reverse transactions (e.g., repos, securities lending with cash collateral, and gold swaps) as deposits (when they are liabilities of a deposit-taking corporation) or loans.** This treatment is consistent with the treatment recommended in the *2008 SNA* and *BPM6* (also in the *MFSCMG 2016*), and no decision has been taken to change this recommendation.

12. **In conclusion, the *2025 SNA* and *BPM7* will state that cash[6] margins for financial derivatives should always be classified as other accounts receivable/payable when they are not liabilities of a deposit-taking corporation.** When they are liabilities of a deposit-taking corporation, they should be classified as deposits. This treatment also applies to other types of cash collateral (except those for reverse transactions), including reserves held by the factor in a factoring arrangement. The supply and receipt of cash under reverse transactions should be classified as deposits (if they are liabilities of a deposit-taking corporation) or loans. The treatment of cash collateral will be investigated further as part of the research agenda.

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[5] The *Draft 2025 SNA* and *Draft BPM7* mention "if the liabilities are included in broad money" and/or "if they are liabilities of a deposit-taking corporation" as the criteria to determine if cash margins for financial derivatives and similar cash collateral should be classified as deposits. As mentioned in paragraph 5.59 of the *Draft 2025 SNA* and *Draft BPM7*, the liabilities of deposit-taking corporations are typically included in measures of money broadly defined. However, as illustrated in Box 6.2 of the *MFSMCG 2016*, measures of broad money differ across economies. The *2025 SNA* and *BPM7* will use "if they are liabilities of a deposit-taking corporation" as the criterion to identify deposits in relation to cash collateral because this is a well-defined concept in national and external accounts and will thus promote international comparability.

[6] In the draft Glossary of Terms and Definitions in Macroeconomic Statistics, cash is defined in the following way: "*Liquid financial instruments that are widely accepted in an economy as a medium of exchange, plus those that can be converted into a medium of exchange at short notice at, or close to, their full nominal value.*" However, this definition is too broad for defining "margin calls in cash" since no transaction or position is recorded when securities are provided as margin (see, e.g., paragraph 11.124 of the *2008 SNA* and paragraph 5.94 of *BPM6*). Therefore, the glossary definition will be divided into cash (i.e., liquid financial instruments that are widely accepted in an economy as a medium of exchange) and cash-equivalent instruments (i.e., liquid financial instruments that can be converted into a medium of exchange at short notice at, or close to, their full nominal value).

Annex I. Changes to the *Draft 2025 SNA*

12.64 Liabilities under reverse transactions (e.g., securities repurchase agreements, securities lending with cash collateral, and gold swaps) are other deposits when incurred by a deposit-taking corporation and are included in loans when incurred by any other institution. Similarly, cash margins related to financial derivative contracts (described below) and reserves held by the factor in a factoring arrangement are classified as other deposits if they are liabilities of a deposit-taking corporation and in other accounts receivable/payable if they are liabilities of any other institution.

12.81 The supply and receipt of funds under a securities repurchase agreement, including the supply and receipt of margin calls in cash, is treated as a loan or deposit. It is generally a loan, but is classified as a deposit if it involves liabilities of a deposit-taking corporation. If a securities repurchase agreement does not involve the supply of cash (that is, there is an exchange of one security for another, or one party supplies a security without collateral), there is no loan or deposit.

12.87 Factoring is a transaction in which a factor, which can be a bank, a specialized factoring company, or other financial organization, buys trade accounts receivable from a supplier at a discount. Factoring is commonly viewed as a purchase or sale of invoices transferring the legal right of the claim on the debtor to the factor. In factoring, the indirect financing by the factor to the debtor is treated as a loan. The accounts receivable concerned are trade-related receivables arising from the provision of goods, services, or work in progress. There are two basic types of factoring: non-recourse and recourse factoring. In a nonrecourse agreement, the factor assumes the full risk of non-payment by the debtors at maturity and therefore may charge the supplier a higher fee. In a recourse agreement, all or part of the risk is kept by the supplier. The factor may also keep a reserve that should be paid back to the supplier once the debtor pays its liability in full. The instrument reclassification from trade credit to a loan should be recorded as a transaction in the financial account. The recourse is seen as a guarantee treated as a contingent liability for the supplier, which should therefore not be recorded unless and until being activated by the factor. The factoring income is treated as a fee paid by the supplier; see paragraph 7.xxx. The reserve held by a factor is classified as a deposit (if it is a liability of a deposit-taking corporation) or other accounts receivable/payable, following the recording of cash margins for financial derivatives.

12.136 Margins are collateral provided to cover potential obligations. The required provision of margin reflects market concern over counterparty risk and is standard in financial derivative markets, especially for futures and exchange-traded options. Ownership of the margin remains with the unit that provided it. Cash margins for financial derivatives are classified as deposits (if they are liabilities of a deposit-taking corporation) or other accounts receivable/payable. When a margin is placed in a non-cash asset (such as securities), no transaction is recorded because no change in economic ownership has occurred. In organised exchanges and clearing houses, margins are increased or decreased as a result of settling profits/losses of the derivative contracts by marking them to market value often on a daily or intraday basis; they are recorded as an increase or decrease in deposits (if they are liabilities of a deposit-taking corporation) or other accounts receivable/payable with a corresponding entry in a decrease in financial derivative assets or liabilities. If the margin falls short of a required level (often called a maintenance margin), an additional margin must be posted to meet the requirement; this payment is not to settle a financial derivative contract and should not be recorded in financial derivatives. These principles for classifying cash margins for financial derivatives as deposits or other accounts receivable/payable apply generally to all types of cash collateral, except those for reverse transactions (which are recorded as loans or deposits).

14.67 For currency, the valuation is the nominal or face value of the currency. For deposits, the values to be recorded in the balance sheets of both creditors and debtors are the amounts of principal that the debtors are contractually obliged to repay the creditors under the terms of the deposits when the deposits are liquidated. The amount of principal outstanding includes any interest and implicit financial services on loans and deposits due but not paid. Currency and deposits in foreign currency are converted to domestic currency at the mid-point of the bid and offer spot exchange rates prevailing on the date of the balance sheet. Liabilities under reverse transactions (e.g., securities repurchase agreements, securities lending with cash collateral, and gold swaps) incurred by a deposit-taking corporation are included in other deposits (while liabilities incurred by any other institution under reverse transactions are included in loans). Similarly, cash margins related to financial derivatives contracts and reserves held by the factor in a factoring arrangement are included in other deposits if they are liabilities of a deposit-taking corporation. Otherwise, they are included in other accounts receivable/payable.

25.81 The initial margin placement may be made up of cash or interest-bearing securities. Margin placement transactions in cash are not the counterpart of transactions in derivatives; rather, they are the counterpart of transactions in claims on the exchange or at another institution corresponding to the resulting margin balances. Such claims are classified as deposits if they are liabilities of a deposit-taking corporation. Otherwise, they are included in other accounts receivable/payable. When margin placements are made in pledged non-cash assets, such as securities, no entries are required because the entity on whom the depositor has a claim (the issuer of the security) is unchanged. In the case of a maintenance margin call (which can result from new contracts or holding losses on existing contracts), additional margin is required. These funds are not to settle a financial derivative contract and should not be recorded in transactions in financial derivatives.

29.21 A number of deposits and loans embed charges for implicit financial services on loans and deposits. The types of deposits include transferable deposits and other deposits, which typically include saving deposits, fixed term deposits, non-negotiable certificates of deposit; deposits of limited transferability, and overnight and very short-term repurchase agreements if they are considered part of the definition of broad money or if they concern agreements between deposit-taking corporations; shares of other similar evidence of deposits issued by savings and loan associations, building societies, credit unions and the like; liabilities under reverse transactions (e.g., securities repurchase agreements, securities lending with cash collateral, and gold swaps) incurred by a deposit-taking corporation; and cash margins for financial derivative contracts and reserves held by the factor in a factoring arrangement if they are liabilities of a deposit-taking corporation. The types of loans cover amounts overdrawn on overdrafts, installment loans, hire-purchase credit, revolving credit, mortgage loans, and loans to finance trade credit; reverse transactions (except those that involve liabilities of deposit-taking corporations); and financing in the form of a financial lease.

Annex II. Changes to the *Draft BPM7*

5.43 *Other deposits consist of all claims, other than transferable deposits, that are represented by evidence of deposit.* Other deposits include savings and fixed-term deposits, and nonnegotiable certificates of deposit. (Negotiable certificates are classified as debt securities.) Restricted deposits, defined as those for which withdrawals are restricted on the basis of legal, regulatory, or commercial requirements, are included in other deposits, as well as shares or similar evidence of deposit issued by savings and loan associations, building societies, credit unions, and the like. Liabilities under reverse transactions (e.g., securities repurchase agreements, securities lending with cash collateral, and gold swaps) are also other deposits when occurred by a deposit-taking corporation and are included in loans when incurred by any other institution. Similarly, cash margins for financial derivatives and reserves held by the factor in a factoring arrangement are included in other deposits if they are liabilities of a deposit-taking corporation and in other accounts receivable/payable if they are liabilities of any other institution. Reserve position in the IMF (see paragraph 6.85) is included in other deposits.

5.51 Loans are financial assets that are created when a creditor lends funds directly to a debtor, and are evidenced by documents that are not negotiable.[7] This category includes all non-negotiable claims other than deposits entailing fixed cash flows (or cash flows with determined by a formula), including those emerging from overdraft facilities, except accounts receivable/payable, which are treated as a separate category of financial assets. Loans that have become negotiable and been recorded in debt securities (as noted in paragraph 5.45) are also excluded from loans. This category includes installment loans, hire-purchase credit, loans to finance trade,[8] factoring claims,[9] and the supply and receipt of cash under reverse transactions if it does not involve liabilities of a deposit-taking corporation. Claims on or liabilities to the IMF (including use of IMF credit) that are in the form of loans are also included in this category (see also paragraph 6.85 on the treatment of loans provided to the IMF General Resources Account; and Annex 7.1 on loans and credit from the IMF). An overdraft arising from the overdraft facility of a transferable deposit account is classified as a loan. However, undrawn lines of credit are not recognized as a liability. The distinction between loans and deposits is discussed under deposits in paragraph 5.40.

5.52 *A securities repurchase agreement (repo) is a contractual arrangement involving the sale of securities for cash, at a specified price, with a commitment to repurchase the same or similar securities at a fixed price either on a specified future date (often one or a few days hence, but also further in the future) or an "open" maturity.* The supply and receipt of cash under a securities repurchase agreement, including the supply and receipt of margin calls in cash, is treated as a loan or deposit. It is generally a loan, but it is classified as a deposit if it involves liabilities of a deposit-taking corporation. If a securities repurchase agreement does not involve the supply of cash (i.e., there is an exchange of one security for another, or one party supplies a security without collateral), there is no loan or deposit.

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[7] Negotiability is defined in paragraph 5.15. Loans may be traded, but their legal form is not designed for negotiability in the same way as debt securities.

[8] These types of loans should not be mistaken for trade credit and advances.

[9] The factoring income is recorded as a fee (see paragraph 12.XX).

5.XX (right after 5.61) *Factoring is a transaction in which a factor, which can be a bank, a specialized factoring company, or other financial organization, buys trade accounts receivable from a supplier at a discount.* Factoring is commonly viewed as a purchase or sale of invoices transferring the legal right of the claim on the debtor to the factor. In factoring, the indirect financing by the factor to the debtor is treated as a loan. The accounts receivable concerned are trade-related receivables arising from the provision of goods, services, or work in progress. There are two basic types of factoring: non-recourse and recourse factoring. In a non-recourse agreement, the factor assumes the full risk of non-payment by the debtors at maturity and therefore may charge the supplier a higher fee. In a recourse agreement, all or part of the risk is kept by the supplier. The factor may also keep a reserve that should be paid back to the supplier once the debtor pays its liability in full. The instrument reclassification from trade credit to a loan should be recorded as a transaction in the financial account. The recourse is seen as a guarantee treated as a contingent liability for the supplier, which should therefore not be recorded unless and until being activated by the factor. The factoring income is treated as a fee paid by the supplier (see paragraph 11.XX).[11] The reserve held by a factor is classified as a deposit (if it is a liability of a deposit-taking corporation) or in accounts receivable/payable, following the recording of cash margins for financial derivatives.

5.73 Other accounts receivable/payable includes accounts receivable or payable such as liabilities for taxes, purchase and sale of securities, securities lending fees, gold loan fees, wages and salaries, dividends, and social contributions that have accrued but not yet paid. It also includes prepayments of those items. Claims arising from cash margins for financial derivatives and reserves held by the factor in a factoring arrangement are also included if they are not liabilities of a deposit-taking corporation. Interest accrued should be recorded with the financial asset or liability on which it accrues, not as other accounts receivable/payable. However, for securities lending and gold loan fees, which are treated as interest by convention (see paragraphs 11.67–11.68), the corresponding entries are included under other accounts receivable/payable, rather than with the instrument to which they relate.

5.94 *Margins are collateral provided to cover potential obligations*. The required provision of margin reflects market concern over counterparty risk and is standard in financial derivative markets, especially for futures and exchange-traded options. Ownership of the margin remains with the unit that provided it. Cash margins for financial derivatives are classified as deposits (if they are liabilities of a deposit-taking corporation) or other accounts receivable/payable. When a margin is placed in a noncash asset (such as securities), no transaction is recorded because no change in economic ownership has occurred. In organized exchanges and clearing houses, margins are increased or decreased as a result of settling profits/losses of the derivative contracts by marking them to market value often on a daily or intraday basis. They are recorded as an increase or decrease in deposits (if they are liabilities of a deposit-taking corporation) or other accounts receivable/payable with a corresponding entry in a decrease in financial derivative assets or liabilities. If the margin falls short of a required level (often called a maintenance margin), an additional margin must be posted to meet the requirement. This payment is not to settle a financial derivative contract and should not be recorded in financial derivatives. These principles for classifying cash margins for financial derivatives as deposits or other accounts receivable/payable apply

[11] The indirect financing by the factor to the debtor is treated as a loan, but it does not generate interest or FISIM.

generally to all types of cash collateral, except those for reverse transactions (which are recorded as loans or deposits).

8.39 Margins are collateral provided to cover potential obligations arising from financial derivatives—especially futures or exchange traded options. (As discussed in paragraph [5.94], margin payments in cash for financial derivatives are classified as deposits (if they are liabilities of a deposit-taking corporation) or other accounts receivable/payable.)