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BPM6/2008 SNA Update
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F.10 Treatment of Cash Collateral

F.10 Treatment of Cash Collateral[1]

Repayable margins in financial derivatives give rise to claims which are classified in the Balance of Payments and International Investment Position Manual, sixth edition*, and the* System of National Accounts 2008 *as deposits, if potentially included in the monetary aggregates or as other accounts receivable/payable otherwise. This treatment is at odds with that of the* European System of Accounts *which classifies such claims as deposits if they are liabilities of monetary financial institutions, but as loans in other cases. This Guidance Note examines the treatment of cash collateral agreements in general terms, also beyond the specific case of cash margins in financial derivatives. The focus of the discussion is placed on the more contentious issues of (i) claims not included in the monetary aggregates (the classification as deposits of claims on units whose liabilities are included in the monetary aggregates is not controversial) and of (ii) cases other than securities lending with cash collateral (in principle to be classified as loans if not included in the money measure). Split views were expressed 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 both groups ultimately 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 a deposit-taking corporation) or loans. The treatment of cash collateral will be investigated further as part of the research agenda.*

SECTION I: THE ISSUE

BACKGROUND

1. **We examine herein the treatment of cash collateral transactions, namely agreements that entail the transfer of cash between two parties to secure credit exposures or other risks.** This kind of deal is common as part of securities lending operations, clearing and settlement mechanisms in financial markets, brokerage agreements, guarantees to governments, or the constitution of certain collateralized payables. They could also be part of legal requirements in the framework of bankruptcy proceedings or other court disputes in certain jurisdictions. At the same time, cash collateral transactions also occur outside court proceedings when escrow accounts are set up, for example when real estate ownership changes and several steps need to be completed by the buyer and seller to complete the transfer.

2. **This Guidance Note examines deals where the party making the cash payment in the context of securing a credit exposure retains a claim against the party that receives the payment.** It does not cover cash transfers to counterparties in the course of the settlement of transactions to

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acquire assets issued by third parties or to offset net liability positions as required in certain financial derivatives contracts, as no collateral is provided and no claim on the counterpart arises in such cases.

3. **The Guidance Note does not cover either the segregation of cash assets in the course of bankruptcy proceedings in order for them to be subject to court or creditor authorization prior to use.** In those cases, no market transaction occurs, and their statistical treatment, in particular in terms of economic ownership, is out of the scope of this assessment.

4. **Examples of the transactions under examination here are investors' provisions of cash to the so-called "margin accounts" with brokers or dealers.** The payments are typically made after declines in value of securities acquired by clients "on margin" (i.e., partially financed) to compensate for the associated loss in collateral value (margin calls). Apparent similar cash payments to brokers and dealers in the context of so-called "cash accounts" or due to "variation margin" requirements are made by clients in order to settle the acquisitions of securities, and not to pledge collateral, and are therefore not part of the transactions examined in this Guidance Note.

5. **The current statistical standards provide clear and consistent guidance for the treatment of cash collateral transactions associated to securities lending.** *Balance of Payments and International Investment Position Manual, sixth edition* (*BPM6*), paragraphs 5.52 and 7.59, and *System of National Accounts 2008* (*2008 SNA*), paragraph 11.74 indicate that those transactions should be treated like repurchase agreements leading to the recording 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 included in broad money or not (*BPM6*, paragraphs 5.43 and 5.53; *2008 SNA*, paragraphs 11.59, 11.75, and 17.254). Similarly, cash provided in the context of gold swaps are treated analogously to repurchase agreements, either as loans or deposits (*BPM6*, paragraph 5.55; *2008 SNA*, paragraph 11.77).

6. **The standards also provide guidance on cash collateral pledged in the context of financial derivatives contracts in *BPM6*, paragraphs 5.94 (a) and 8.39, and *2008 SNA*, paragraphs 11.59, 11.124, and 13.57 under the denomination of "repayable margins".** The claims arising from these cash payments (which exclude payments entailing settling asset positions) are considered as deposits if included in the monetary aggregates in the two manuals. At the same time, *BPM6* indicates 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" (*BPM6*, paragraph 5.94 (a))—while SNA leaves the classification of the claims in such cases to the discretion of the compiler as deposits or as other accounts payable/receivable—"Some compilers may prefer to classify these margins within other accounts receivable or payable in order to reserve the term deposits for monetary aggregates" (*2008 SNA*, paragraph 11.124).

7. **The *European System of Accounts* (*ESA 2010*) departs from the SNA 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 lending and repurchase agreements.

8. **The standards also include guidance on the treatment of margin calls in cash in the repo market (provisions of cash triggered by reductions in the price of the securities collateralizing the**

repo) as loans (*BPM6*, paragraph 5.53 and *2008 SNA*, paragraph 11.75). However, at the same time *BPM6*, paragraph 5.94 establishes that "[the] principles for the classification of margins [in the context of derivatives contracts] also apply more generally to margin calls relating to positions in other financial assets", which would require margin calls for repos to be treated in the same way as repayable margins in financial derivatives (i.e., be classified as either deposits or other accounts receivable/payable, but not as loans—this is most likely just a drafting issue and the intention of the authors might have actually been to exclude cash margin calls in repos from the cases treated in *BPM6*, paragraph 5.94). Some SNA/BPM text adaptations would be needed to remove these conflicting, ambiguous messages and establish a clear treatment for margin calls in cash in the repo market.

9. **Apart from the specific cases discussed in paragraphs 5 to 8, the standards do not provide guidance on generic pledging of cash collateral.** This leaves uncovered certain collateralized guarantees like those arising in the context of the contributions by banks to banking resolution regimes and deposit guarantee schemes or the escrow accounts.

10. **This Guidance Note examines the possibilities for providing a comprehensive and consistent, albeit not necessarily uniform, treatment of cash collateral in the international standards.** It aims at resolving the current drawbacks in the standards, which provide guidance on the subject that is partial, inconsistent across manuals (e.g., *BPM6*, paragraph 5.94 (a), *2008 SNA*, paragraph 11.124, and *ESA 2010*, paragraph 5.136 (d) in relation to repayable margins where the debtor's liabilities are not included in broad money), inconsistent in wording within the same manual (*BPM6*, paragraph 5.53 and *BPM6*, paragraph 5.94 in relation to margin calls in cash in repos) and allegedly leading to different treatments of transactions with a similar economic effect (*BPM6*, paragraph 5.53 & *2008 SNA*, paragraph 11.75; and *BPM6*, paragraph 5.94 (a) & *2008 SNA*, paragraph 11.59 in relation to margin calls under repo and repayable margins in financial derivative contracts respectively).

ISSUES FOR DISCUSSION

11. **The issue at stake is the classification of the claims arising as a result of transferring cash to secure any kind of credit exposure.** As discussed above, apparent similar cash payments taking place to settle the acquisition of assets vis-à-vis third parties or to offset liability positions do not give rise to claims on the counterparty in the transaction.

12. **An interesting issue is whether the provision of cash in the context of generic margin calls could rather be recorded as a reduction of the credit exposure that it secures.** For instance, margin calls in cash under repo agreements when the market value of the repoed security falls below the required margin (usually the initial haircut) might be seen as reducing the liability position of the repo seller. However, in most cases the cash collateral conditions in the repo or securities lending agreement clearly distinguish separate terms for the cash collateral, for instance regarding the interest rate accruing on it which generally differs from the repo rate or the rebate rate.[2] When the existence of a financial claim

[2] The Financial Stability Board (FSB) is currently facilitating global securities financing data collection based on the Standards and Processes for Global Securities Financing Data Collection and Aggregation (FSBDS) published in November 2015. The Bank for International Settlements (BIS) acts as a global data aggregator for the initiative. The Frequently Asked Questions (FAQs) developed by the SFT Data Experts Group (DEG) to help implementing the FSBDS clarified the treatment of cash collateral in repos by asking them to be reported as a collateral, and not as a reduction of the repo loan.

is evidenced in the context of cash collateral pledging, be them due to margin calls or otherwise, the classification of the asset requires further clarification.

13. **The available methodological guidance for some cash collateral transactions coincides in classifying the claims as deposits if the corresponding liabilities are part of the money definition** (see above). This advises for setting such a treatment as a general rule for all kind of cash collateral transactions. The classification as deposits aligns better with the national accounts balance-sheet structure of banks where payables with similar characteristics, in particular in terms of maturity (short term), are usually included in the money definition and classified as deposits, and not under the possible alternative category of loans (this is additionally a strong requirement in *ESA 2010,* paragraph 5.118). At the same time, it is recommended that the wording in *BPM6,* paragraph 5.53 and *2008 SNA,* paragraph 11.75 is amended so that they do not lead to the interpretation that repo margin calls are to be treated as loans in all cases.

14. **However, the current standards do not provide uniform and consistent guidance for cash collateral transactions that result in liabilities of units whose liabilities are not classified in the money aggregates.** For securities lending with cash collateral, assimilated to repurchase agreements (see above), and for margin calls in cash under repos (*BPM6,* paragraph 5.53 and *2008 SNA,* paragraph 11.75) the choice is loans (although as indicated above the wording in *BPM6,* paragraph 5.94 could be interpreted as implying that margin calls under repos are to be treated as other accounts receivable/payable). At the same time, for so-called "repayable margins" in financial derivatives contracts, *BPM6* prescribes other accounts receivable/payable (*BPM6,* paragraph 5.94 (a)); *2008 SNA* either deposits or other accounts receivable/payable at the discretion of the compiler (*2008 SNA,* paragraph 11.124); and *ESA 2010* loans (*ESA 2010,* paragraph 5.136 (d)).

15. **In the following narrative, we consider three options for an overreaching instrument classification of claims arising due to cash transfers made in order to secure risk exposures and to units whose liabilities are not included in the monetary aggregates.**[3] The collateral agreements that lead to liabilities of deposit-taking corporations are therefore excluded from the discussion below (such liabilities would in all cases be classified as deposits).

OPTION 1: OTHER ACCOUNTS RECEIVABLE/PAYABLE

16. **This is the current treatment in both *BPM6* and *2008 SNA* and would require minimum changes in the wording of the two manuals, even though it would require a change in the *2008 SNA* definition of other accounts payable/receivable.**[4] This option is based on the interpretation that loans and deposits should only apply to transactions entailing the clear intention of raising funds or placing funds by the parties involved, respectively, while the transactions under review here are motivated by securing risk exposures. Particularly relevant to this interpretation are *BPM6,* paragraph 5.51 and *2008 SNA,* paragraph 11.72 by indicating that, in loan transactions, *"a creditor lends funds directly to a debtor."*

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[3] Not all data collections distinguish between loans and deposits for cash collateral. For example, previously mentioned FSBDS only define that the collateral should be presented by type of assets provided.

[4] *2008 SNA* paragraph 11.127 does not actually cover cash collateral, despite the flexibility allowed by paragraph 11.124 to depart from the deposit treatment.

17. **Nevertheless, under this option, securities lending with cash collateral would still be treated as loans given that repos and securities lending against cash are substitutes—see paragraph 5 (unless there is a decision to re-examine the treatment of repos).** The loan treatment would be justified in this specific case on the grounds that these transactions are often motivated by raising funds (or might have a strong funding motivation by one of the parties) that cannot be separated from other motives, such as placing funds or securing risk exposures.

18. The implementation of this option would require (i) resolving the drafting conflict on margin calls in cash under repos (*BPM6,* paragraph 5.53 and *2008 SNA,* paragraph 11.75 versus *BPM6,* paragraph 5.94), (ii) linking the treatment of cash collateral as deposits to liabilities of depository institutions only, and extending such treatment to generic cash collateral transactions, and (iii) modifying the definition of other accounts.

OPTION 2: LOANS

19. The features of the claims associated to cash payments made to secure risk exposuresare seen, under this option, as being in line with those of loans as described in *BPM6,* paragraph 5.51 and *2008 SNA,* paragraph 11.72 (i.e., entailing the provision of funds with absence of negotiability). This implies that the *purpose* of such provision of funds is regarded as largely irrelevant.

20. **The focus is put here on the economic *effect* rather than on the economic *purpose,* similar to making no distinction between financial derivatives used for hedging and those used for investment purposes.** This option builds on the factthat the units' *purpose* is already disregarded in the well-established treatment of securities lending with cash collateral and repos. The funding *purpose,* which would in principle be behind their classification as loans, would not necessarily exist as some repurchase agreements (and securities lending with cash collateral) are motivated by the desire to borrow or to lend a specific security, rather than by the desire to raise funds or to place funds. Moreover, the *purpose* may not be the same for the twoparties of a given repo transaction. Actually, market analysts commonly compare the repo interest rate of a transaction (rebate rate in securities lending) with the general money market interest rate to assess whether the transaction is dominated by funding or security demand forces. In addition, it is noted that dealers and clearing houses all have collateral investment policies that involve using cash collateral as funding or borrowing device, which would lead to conclude that the classification of the underlying claims as loans can be warranted also if an economic *purpose* perspective is taken.

21. **Margin calls in various circumstances are seen here as responding to the same economic forces behind the initial terms in a repo or a securities lending with cash collateral:** achieving equilibrium in value (including haircuts) between funds and pledged assets where either part can be seen as collateral for the other, to the *effect* that the risks and rewards of the underlying securities (be them derivatives or others) effectively stay with the unit to which the economic ownership is assigned.

22. **Moreover, a possible treatment as other accounts receivable/payable (Option 1) would be seen as not in accordance with the nature of the cash flows associated to the claims.** This would be mainly grounded in considering other payables as linked to timing difference between changes in ownership of assets (including financial assets) or products and the corresponding payments (*2008 SNA,* paragraphs 11.127, 17.294, and 17.296; *ESA 2010*, paragraphs 5.240–5.244) and would require definitional changes in the instrument.

23. **Additionally, cash collateral pledging terms are in most cases including interest payments to the party constituting the deposit.** An interesting point in the discussion is the role that this fact should have in the instrument classification. The relevant feature here is the existence of regular *cash* interest payments, andnot the accrual of (interest) income, which is conceptually present in all cash-flow streams other than those associated to financial derivatives; insurance, pensions, and standardized guarantees; and equity. *2008 SNA,* paragraph 17.236 indicates that "*As far as possible, there should be no interest arising on other accounts receivable and payable since the amounts outstanding that give rise to interest payments should be classified as loans",* which, though incorrectly implying that other account receivable and payable cannot accrue interest (contradicting *2008 SNA,* paragraph 3.144), could be understood as merely requiring the classification of assets making regularinterest payments as loans. However, no similar requirement is present in either *BPM6* or *ESA 2010*. It issuggested that the particular issue of the links between periodic interest payments and the classification of claims as loans or other payables is examined and clarified in the manuals.

24. **In considering loans as opposed to deposits—which in principle also entail the provision of funds and lack negotiability—this option aligns with the possible convention suggested in *BPM6,* paragraph 5.40 for distinguishing between loans and deposits in certain cases:** *"When one party is a deposit-taking corporation and the other is not, a possible convention is that an asset position of a deposit-taking corporation is classified as a loan by both parties."* Option 2 would then extend by this possible convention and turn it into a compulsory treatment in the case of cash-collateral to all claims on non deposit-taking corporations. A drawback of this distinction is that it is well-established in the current manuals that central governments can generally have deposit liabilities, thus anyway the delineation between loans and deposits is not based on sectorization.

25. **The implementation of this option implies changing the handbooks to include generic provisions on cash collateral beyond the few specific cases treated now, and to change the current treatment of "repayable margins" in financial derivatives contracts (*BPM6,* paragraph 5.94a; *2008 SNA,* paragraph 11.124), in both cases to prescribe the classification of the arising claims as loans** (when the claim is not part of money aggregates or when the liability arising is not issued by units whose liabilities are part of the money definition). This would eliminate the direct conflicts in and across manuals indicated above (see paragraph 10), and the additional indirect conceptual discrepancies with other prescriptions in the standards in the light of the detailed analysis of the nature of the claims (see in particular the discussion in paragraphs 22–24 above). However, this may not well reflect the nature of the instrument (the intention is not to fund the other party) and would not result in achieving consistency with monetary aggregate statistics.

OPTION 3: DEPOSITS

26. **The proponents of this option do not see necessary to make a distinction of instrument class on the basis of the sector of the debtor, as results from Options 1 and 2.** While it is still accepted the convention that non-negotiable liabilities that would be included in the monetary aggregates *should* be classified under deposits, it is not seen that it follows from that that liabilities not to be classified in such aggregates, including those of institutions other than deposit-taking institutions, should not be classified the same in other cases, in particular in the case of cash collateral agreements (i.e., the requirements in the international standards regarding inclusion in the monetary aggregates would be "sufficient conditions" for the classification of claims as deposits, and not "necessary conditions").

27. **In fact, making a distinction on the basis of the sector for which the instrument is a liability could be highly distortive in this case given usual market practices.** It is not uncommon that two parties maintain margining requirements covering variouscontracts, and it is not simple to justify why a claim of one (say non-financial) party would be a deposit and the claim of the other (financial) party would be a loan, also in contradiction to the conceptual definition of loans in the manuals. The distinction would also prevent netting as the standards do not generally allow netting across different instruments. However, it could be desirable that bilateral margining obligations on over the counter (OTC) derivatives are netted between two same parties in national accounts and balance of payments to prevent inflating balance sheets.

28. **Moreover, the obligations arising between the parties and the resulting cash flow structure in these transactions are seen as sufficiently similar to those of deposits as defined in the standards.** The "Collateral Arrangement Agreement" (CAA), usually accompanying the pledging, is seen as representing *"evidence of deposit"* as required in the *2008 SNA,* paragraph 11.59 and *BPM6,* paragraph 5.39 as the terminology, clauses, and operational arrangements in CAAs correspond to those establishing regular deposit accounts.

29. **At the same time, one feature of such guaranteeing deposits is that often (not always) the depositor has the *initiative* to recuperate the funds by stopping the action that requires depositing.** *Initiative* by the creditor is seen as a feature that distinguishes deposits from loans (see *ESA 2010,* paragraph 5.113 (b)).

30. **The case of securities lending with cash collateral, as well as repos and associated margin calls, would be considered separately** (with a decision to take to either unify the recording as deposits or emphasize the funding purpose and keep the loan classification). Moreover, it could also be considered the possibility to make exceptions for units not commonly seen as issuing deposits, in particular households.

31. **This option would require changing the current provisions as regards margins in financial derivatives and introducing standards on generic cash collateral obligations.** The changes would eliminate direct and indirect inconsistencies in the standards similar to Option 2. At the same time, this option would not overrule the choice made by compilers to follow *BPM6,* paragraph 5.40.

SECTION II: OUTCOMES

FITT ASSESSMENT

32. **It is difficult to argue that the economic substance of assets derived from similar collateral arrangements to secure similar risks changes only depending on which agents are involved.** Thus, maintaining separate treatments on the grounds of whether or not the liabilities can be included in the monetary aggregates, or are or not liabilities of deposit-taking institutions, would be artificial, and for instance prevent the netting of bilateral claims of the same nature arising between parties in the context of margin calls (see paragraph 27).

33. **Moreover, the technical assessment unanimously supported by the FITT members who expressed their opinion during the consultation, concludes that the features of the claims arising as a consequence of pledging cash collateral align with those of deposits as laid down in the**

standards. In particular, they constitute non-negotiable claims represented by evidence of deposits (the CAAs). Furthermore, the definition of deposits in paragraph 4.29 of the *Monetary and Financial Statistics Manual and Compilation Guide* (*MFSMCG*) allows for debtors other than deposit-taking corporations (central government) to incur deposit liabilities.

34. **The assessment also concluded that a classification as loans (Option 2) would not be appropriate.** This is due to the absence of a funding intention—which is embedded in the loan definition in the standards (*"loans are financial assets that are created when a creditor lends funds to a debtor"*; *BPM6*, paragraph 5.51 and *2008 SNA*, paragraph 11.72)—as the purpose of these cash placements is rather securing risk exposures. Even though it is also true that cash collateral transactions do not have either the traditional purpose of deposits, the investment of funds, such condition is not so forcefully required in the definition of deposits (as laid down in *2008 SNA*, paragraph 11.59, *BPM6*, paragraph 5.39, and subsequent articles) as it is in the case of loans in relation to the funding purpose.

35. **Furthermore, a classification as other receivable/payable (Option 1) was not seen as appropriate either.** This was grounded in the evidence of deposits represented by the CAAs as described above, but also in the fact that the claims under examination here are not linked to timing differences between the acquisition of assets or products and the associated payments, a common, although perhaps not exclusive, feature of the category other accounts receivable/payable (*2008 SNA*, paragraphs 17.294 and 17.296).

36. **As an exception, securities lending with cash collateral would in principle still be treated as loans.** This is due to their equivalence to repos, which are consistently classified as loans in the standards and where the funding purpose is more prominent and cannot be effectively distinguished from other possible purposes underlying the transaction.

37. **The possibility to also exclude from this treatment other cash collateral agreements that entail liabilities of units not typically associated with the issuance of deposits was not supported by a few FITT respondents during the consultation process.** A respondent suggested no exemption; another a limited number; and a third one, only very limited exclusions (perhaps circumscribed to households' liabilities only).

38. **At the same time, FITT recognized that Option 3 might be seen as contradicting the common association of deposits to the monetary aggregates** (as for instance recognized explicitly in *2008 SNA*, paragraph 11.124). Furthermore, the recommendation could be seen as not being in line with the possible convention set out in *BPM6*, paragraph 5.40 for distinguishing between loans and deposits that compilers may elect to follow, which is extensively used in macroeconomic statistics in Europe. Indeed, it is noted that the recommendation is inconsistent with the definition of deposits in *ESA 2010*, paragraph 5.79 as *"standardized, non-negotiable contracts with the public at large, offered by deposit-taking corporations and, in some cases, by central government as debtors"*. This point, and/or the associated need to have further reflections from the perspective of monetary analysis before taking a decision, was made by two members of the BPTT and three members of the AEG in the corresponding consultations. However, *2008 SNA* (also the *MFSMCG*) and even *ESA 2010* allow for debtors other than deposit-taking corporations (central government) to incur deposit liabilities and could also be seen as only allowing for some simplification as this point is not made in the definition of deposits. In addition, Option 3 is not designed to necessarily overrule the recording option foreseen by *BPM6*, paragraph 5.40 that compilers may decide to follow (which is actually prescribed by *ESA 2010*).

39. **FITT also acknowledges that margins and cash collateral have features that belong to loans (AF.4) in some cases, deposits (AF.2) in others and other payables (AF.8) in yet others.** Irrespective of the decision in terms of first-digit level instrument classification, FITT proposed to create a new instrument subcategory (AF.X8) under AF.4, AF.8, or AF.2 (depending on the first-digit level decision) to cover them.

40. **In doing so, analysts could still separately identify and treat them in accordance with a specific analytical purpose.** However, the increase in compilation burden related to this additional detail needs to be considered.

41. FITT additionally suggested that, following the possible adoption of Option 3 for generic cash-collateral claims, the specific case of cash collateral pledging to secure repurchase agreements/securities lending is also reexamined.

GLOBAL CONSULTATION

42. **The public consultation reflected mixed views on the proposals in this guidance note (GN).** Respondents' views were split (seven supported the proposal while nine did not) on classifying all cash-collateral-related liabilities as deposits. Out of the seven who supported the proposal, five indicated that not only deposit-taking and other financial corporations but also other institutional sectors (e.g., nonfinancial corporations) should be allowed to record deposit liabilities for cash collateral. Out of the nine who did not support the proposal, five preferred recording cash collaterals in accounts payable/receivable while four preferred recording them in loans.

43. **More than half of the respondents did not support the proposal to introduce a new sub-instrument category to cover cash collateral** (six supported the proposal while ten did not), indicating that the usefulness of the data would not justify the additional reporting/compilation burden it would entail.

AEG/BOPCOM DISCUSSION

44. **In line with the outcome of the global consultation, BOPCOM expressed mixed views** on the proposed options, and it was recognized that this is a borderline case. BOPCOM did not support introducing a new sub-instrument category.

45. **Members in favor of Option 3 stressed that cash collateral better fits the concept of deposits—including counterparty risk—and they do not carry the characteristics of loans.** They also indicated that a common treatment would not require exceptions for different types of institutional units as institutional units from all sectors (financial and nonfinancial) will treat them in the same way. They indicated that, in addition to financial intermediaries, other sectors also can take deposits.

46. **Members that preferred Option 2 highlighted various arguments in favor of the loans classification:** (i) while not having all the features of "regular" loans, present many commonalities; (ii) don't have important dimensions for a classification as deposits (standardized and non-negotiable; intention of placing funds); (iii) loan classification is also the one used for other borderline cases (e.g., repos and security lending). They recognized that the distinction between loans and deposits will always have elements of a convention; however, they considered that treating cash collateral as loans is also easier to implement and for users to understand and more prone to harmonization/comparability. They

referred to the European System of Accounts (*ESA 2010*) relevant paragraphs and to *BPM6* paragraph 5.40.

47. **The AEG expressed opposing views on the classification of cash-collateral related liabilities,** including for units whose liabilities are usually not included in the monetary aggregates with a slight preference not to change the current guidance of the SNA.

FINAL OUTCOME

48. **Considering the split views on the treatment of cash margins for financial derivatives and other cash collateral that emerged in the global consultation and in the discussions of the AEG and BOPCOM, 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 a different treatment. According to the standard procedure, the editorial teams should also attempt to eliminate inconsistencies within and between the standards.

49. **The decision to keep the current standards unchanged means that loans are eliminated as an option for classifying cash margins in the context of financial derivatives when they are not liabilities of deposit-taking corporations 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.

50. **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 the *Draft 2025 SNA* and the *Draft BPM7*.

51. **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 deposit-taking corporations) or loans.** This treatment is consistent with the treatment recommended in the *2008 SNA* and *BPM6*, and no decision has been taken to change this recommendation.

52. **In conclusion, the *2025 SNA* and *BPM7* will state 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 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.