



## Proposed Recommendations Document:

## 1.12 Reverse transactions

## Summary Details

## Links to Related Guidance/Discussion/Issue Notes and Latest Manuals:

[GN F.3 Reverse transactions](#)[Draft 2025 SNA](#) and [Draft BPM7](#)<sup>1</sup>

## Global Consultation(s):

BP consultation: [June 2021](#)

## Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):

BOPCOM: [February 2021](#)

## Discussions at GFSAC Meeting(s):

To be determined.

## Summary of Proposed Recommendations:

The proposed recommendation is to provide additional and concise clarification and references regarding reverse transactions (RTs) in the update of the *GFSM 2014*, and to maintain consistency with the draft 2025 SNA on the treatment of interest under RTs and the treatment as negative assets of short (negative) positions generated by on-selling.

## Background and Issues

1. The *GFSM 2014* (para. 9.46) describes the treatment of securities repurchase agreements and gold-swaps as lending with no change of the economic ownership for the underlying assets, despite their legal ownership changes. Similarly, the unwinding of those positions is treated as a liquidation of a loan. *GFSM 2014* (paras. 7.159-7.161) further describes the different arrangements according to major collateral types, namely securities and gold, and that the risks and rewards for all arrangements remain with the original owner of the collateral. Although the *GFSM 2014* does not explicitly refer to the term reverse transactions (RTs), it is broadly consistent with the guidance in *BPM6* and *2008 SNA* regarding securities repurchase agreements and gold swaps.

2. In *BPM6* (paras. 7.58-7.61) and *2008 SNA* (para. A4.46) RTs are defined as arrangements that involve a change of legal ownership of securities or gold with commitment to repurchase the same or similar securities or gold, either on a specific date or with open maturity. The methodological framework

<sup>1</sup> Links are to the “white cover” versions of the *2025 SNA* and *BPM7*. While technically still considered draft only editorial amendments will be made between these versions and the final versions.

for RTs indicates that there is no change of economic ownership of the securities or gold, so no transaction of the securities or gold involved in the RT is recorded.

3. While RTs are common transactions among financial institutions, governments may participate in such transactions; additionally, they are relevant for capturing government counterpart information. Major types of RTs are securities repurchase agreements (repos), securities lending, and gold swaps. Government securities are often used as collateral, leading to changes in the legal ownership of these securities. In cases where government is not participating directly in the RT, discrepancies between data collected from the financial institutions' financial statement and the government securities registrar may arise.

4. During the SNA/BPM update process, guidance note *F.3 Reverse Transactions* explored several issues related to the practical application of the guidance in the *BPM6* and *2008 SNA*, resulting in additional clarification on the recording of short (negative) positions and the manufactured dividends/interest. Specifically, draft *2025 SNA* (para. 8.125) discusses the treatment of interest under RTs, which clarifies that interest and dividends continue to accrue to the economic owner of the securities, including when the security taker (legal owner) has on-sold the security to a third party. If the RT covers the period when interest and dividends are payable and the security has been on-sold the security taker (borrower) is typically obliged to compensate the security provider (lender). In such cases it is recorded as a positive credit in interest or dividends for the security lender, and negative credit in interest or dividends for the security borrower. *2025 SNA* (para. 12.83) further explains that the on-selling of the securities is recorded as a negative asset to avoid double-counting by both the economic (original) and final (legal) owner.

### Proposed Recommendations

5. It is recommended that the *GFSM 2014* be updated to align with the draft *2025 SNA* by adopting the definition of RTs and clarifying the treatment of interest and short (negative) positions. In doing so, the updated GFSM should consider:

- Adopting the definition of RTs as contained in the Glossary of System of National Accounts terms and definitions;
- Aligning to the treatment of interest under RTs as described in *2025 SNA* (para. 8.125);
- Aligning to the treatment of short (negative) positions as described in *2025 SNA* (para. 12.83);
- Ensuring the consistent treatment of reverse transactions in line with *2025 SNA* paras. 12.80-12.85 and GFSM Update research projects 1.15 (treatment of cash collateral); 1.13 (financial derivatives by type); and 1.16 (treatment of factoring transactions).

### Rationale for Proposed Recommendations

6. The proposed recommendations aim to harmonize the updated GFSM with the *2025 SNA*, a key objective of the *GFSM 2014* update process. Governments may be directly involved in these transactions, as well as indirectly as counterparts.

## Proposed Text for GFSM Update

7. There are several paragraphs in the *GFSM 2014* that are directly and indirectly impacted by the clarifications around RTs. Paragraphs that may require updates are shown below along with initial proposals on textual amendments.

...

**New paragraph to be introduced after paragraph 6.83.** The economic owner of securities continues to record the accrual of interest (or dividend) on the securities even when the legal ownership changes under a reverse transaction or a custodian has on-sold the securities to a third party. If the reverse transaction covers the period when dividends or coupons are payable, the security taker is typically obliged to pass these amounts on to the security lender. Even if securities under a reverse transaction are on-sold by the security taker to a third party, the security taker is still obliged to compensate the amounts to the security lender. The payments are called “manufactured interest” and “manufactured dividends”. Manufactured interest and dividends are recorded as negative credits/revenues for a security taker who has on-sold the securities. (Based on draft 2025 SNA para. 8.125 and *BPM7*, paras. 12.93 and A7.59)

**Paragraph 7.129** ... In some cases, a central bank may own gold bullion that is not held as reserves, such as sometimes occurs when it acts as a monopoly reseller of mined gold. A gold swap is [one of the reverse transactions and](#) treated as a loan (see paragraph 7.161).

**Paragraph 7.154** Debt securities traded (or tradable) in organized and other financial markets—such as bills, bonds, debentures, negotiable certificates of deposits, asset-backed securities—should be valued at both market and nominal value. Debt securities are shown in the balance sheet at market value. The nominal value is used to determine gross debt at nominal value, which is shown as a memorandum item to the GFS balance sheet. For a traded debt security, nominal value can be determined from the value of the debt at creation and subsequent economic flows, while market value is based on the price at which it is traded in a financial market. [Securities under a repurchase agreement or security lending \(borrowing\) can be on-sold due to the change in legal ownership. This on-selling of the securities is recorded as a negative asset for the on-seller \(the security borrower\), to avoid the double-counting by both the economic/original owner \(the security lender\) and the final owner. \(Refer to 2025 SNA para. 12.83\)](#)

**Insert new paragraph before 7.159.** [Loans include those loans that result from reverse transactions. Reverse transactions are contractual arrangements involving a change of legal ownership of securities, gold, or other assets \(e.g., commodities\) with a commitment to repurchase the same or similar securities, gold or other assets, either on a specified date or with open maturity. Reverse transactions include securities repurchase agreements, securities lending with cash collateral and gold swaps. In some jurisdictions, reverse transactions may involve commodities \(or potentially other nonfinancial assets\). Such reverse transactions are recorded in the same way as for securities and gold.](#)

**Paragraph 7.160** Security lending is an arrangement whereby a security holder transfers securities to another party, subject to the stipulation that the same or similar securities be returned on a specified date or on demand. As with securities repurchase agreement, the risks and rewards of ownership remain with the original owner. If the security taker provides cash as collateral, then the arrangement is a repo (see paragraph 7.159). If the security taker provides noncash collateral, then no stock position changed. In either case, the securities involved remain on the balance sheet of the original owner.

**Paragraph 9.46** As described in paragraphs 7.159 and 7.161, [reverse transactions such as](#) repurchase agreements and gold swaps, are treated as loans with no change of economic ownership for the underlying assets that legally were sold. Similarly, the winding up of the repurchase agreement or swap according to the initial terms of the agreement is treated as a repayment of a loan. The economic nature of an off-market swap is equivalent to a combination of borrowing (the lump sum) in the form of a loan transaction and an on-market swap transaction (financial derivative) (see paragraph 7.162). This recording does not apply to the case of off-market central bank currency swap arrangements which should be recorded as an exchange of deposits with maintenance of value (Refer to 2025 SNA (para. 12.52)).