(1) Topic: Income on Securities Lending and Reversible Gold Transactions

(2) Issues – see BOPTEG Issues Paper # 21.

(3) Recommendations:

(i) A majority of BOPTEG members was of the view that the amount received by the owner of a security for making it available to another unit under a securities lending arrangement is property income. Among the reasons given were consistency with the definition of investment income as the return for provision of a financial asset, that the payment relates to the value and length of the agreement, that business accounts were built on the perception that it was an income, and a concern that there would be an extension of the production boundary if any owner (financial or nonfinancial enterprise or a household) of a security could potentially become a financial service provider.

(ii) A minority of members considered that the payment should be a service. Among the reasons were that the amount does not fit with existing definitions of dividends or interest, the payment could not be added to the value of the asset, and the payment is not associated with a liability.

(iii) It was recognized that amounts payable to a custodian for arranging a securities lending should be classified as a service. It was noted that in some cases, the payment may be made to the custodian, who charges the security owner less in return for the right to lend out the security.

(iv) Discussion on gold lending fees was not taken up, pending a discussion under issue # 27 on whether gold was a financial asset or not.

(4) Rejected Alternatives:

No members wished to classify the fees as a service if provided by a financial intermediary, but as income if provided by another entity.

An alternative approach was given in the ABS paper, based on the starting point that reversible transactions should be treated as outright sales with an associated derivative. As the treatment of reverse transactions differed from international standards and it involved an extension of the definition of derivatives, it was not taken up.
(5) Questions for the Committee:

(i) Does the Committee consider that amounts payable to a security owner for provision of a security as investment income or a service? See above 3(i) and (ii).

(ii) Consequent to that decision, does Committee members have views on the particular type of income or service to which they should be classified? See above 3(i) and (ii).

(iii) Does the Committee have any views on the classification of gold lending fees? See above 3(iv).