

Results of the AEG e-discussion on Reverse transactions

Introduction

1. A technical paper on reverse transactions (SNA/M2.04/26) was presented to the AEG meeting in December 2004. 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. The IMF prepared a note (document no. SNA/M1.05/25.1) soliciting the opinion of the AEG members through e-discussion.

2. The 1993 SNA classifies repurchase agreements as collateralized loans (par 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 reverse transactions (repurchase agreements, securities lending without cash collateral, gold swaps, and gold loans/deposits). However, as a consensus among experts has been very slow to emerge, it is proposed that:

There is no change to the present SNA approach.

That the issue remains on the research agenda.

That the following clarifications be included in the new manuals consistent with the present advice:

- 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.

Response of AEG members on the issue of reverse transactions

Questions	Yes	No	No response
1. Does the Group agree to continuation of the collateralized loan approach to reverse transactions?	8	2	4
2. Does the Group agree to the proposed clarifications?	11	2	1
3. Does the Group agree with the proposal to keep the treatment of reverse transactions on the research agenda?	13	1	

Conclusion

3. The consultation shows that most of AEG members participating support the recommendations on reverse transactions.

A summary of some of the comments is in the annex.

Summary of comments on reverse transactions

The original response and full comments are available on the UN website¹

Comments to question 1:

1. One member suggested that the recording of repurchase agreements should be done without a change in the ownership of the underlying asset. This implies to use the criterion of transfer of economic ownership, instead of the criterion of transfer of legal ownership. Whenever there is a firm commitment to return securities to the original owner at the end of the operation, economic ownership of the securities is considered to remain with the original owner, in the sense that the original owner retains the risks and rewards associated with ownership, while not necessarily retaining the legal title during the whole period. Additional information should be provided in the form of a memorandum about the underlying positions in repoed securities. Foreign exchange securities 'repoed out' by monetary authorities (from official reserves to portfolio investment) should not be reclassified. The provision of more detailed information through the monthly template on international reserves and foreign currency liquidity is seen as sufficient to guarantee a full transparency on monetary authorities' foreign exchange positions.

2. One member observes that securities lending and gold loans/deposits are special cases of reverse transactions and can not be treated as collateralized loans. Securities lending without cash collateral and gold loans or deposits with no cash exchanging hands should not be treated as collateralized loans as no funds are being lent (see also the paper "The Macroeconomic Statistical Treatment of Reverse Transactions" (BOPCOM-01-16)

Comments to question 2:

3. The proposed clarifications do not indicate that a different treatment is necessary for securities lending and gold loans/deposits if cash is not involved. The negative asset adjustment is not acceptable for some members.

¹ <http://unstats.un.org/unsd/sna1993/viewvote.asp?tID=1&stID=0&sstID=0>