

9.2 F3 Reverse Transactions

Fifteenth Meeting of the Advisory Expert Group
on National Accounts

April 8, 2021

Outline

- **Background**
- **Issues**
- **Outcomes**
- **Questions to the Committee**

Annex:

Recording of Manufactured Dividends and Interest

Background

- ***BPM6* and *2008 SNA* describe reverse transactions (RTs) as arrangements that involve a change in legal ownership but no change in economic ownership of an asset and a commitment to reverse the legal ownership in the future.**
- ***BPM6* and *2008 SNA* identified treatments of RTs (including short positions and investment income while a security is on-sold) as one of the topics for possible future research work.**

Issue 1

Methodological Framework for Recording RTs

- Methodological framework of RTs is well-established but resulting implications for the recording might be seen as artefacts, such as recording of negative assets and income flows between parties that do not have a claim on each other.
- Launching a thorough examination of other accounting alternatives could be considered, for example, recognition of a liability of the security borrower to the security lender.

Options

- A. Revisit the methodological framework, with a view to developing an alternative recording.
- B. Maintain the current methodological framework in the *BPM6* and *2008 SNA*.

Issue 2

Clarification for Recording of Short (Negative) Positions

- *BPM6* recommends recording a negative position for on-selling, but it does not clearly explain the reasons and implications of the recommendation. RTs may be sequenced in a long chain of transactions/positions; however, *BPM6* does not explain the recording of such chains (including income streams among them). *2008 SNA* does not address recording short-selling.

Options

- A. Make no changes in the updated BPM and SNA and explain the above issues in other documents (e.g., compilation guide and clarification notes).
- B. Introduce further clarifications (possibly a Box) for recording short positions (including their income streams and from-whom-to-whom implications) in the income and financial accounts.

Issue 3

Classification of Income for Security Lender, Borrower, and Short-Seller

- The security borrower who on-sold the security is typically obliged to pay manufactured dividends/interest to the security lender when the RT covers the period when dividends or interest are payable. Should the updated *BPM* and *SNA* provide further methodological guidance on the recording of manufactured dividends/interest and other income for RTs?

Options

- A. Make no changes in the updated *BPM* and *SNA* and explain them in other documents (e.g., compilation guide and clarification notes).
- B. Incorporate the recordings in paragraphs 1–5 in Annex II of the GN, including a clarification of the recording of manufactured dividends and interest as either:
 - a.1. Credit/debit entries of fees (thus as interest) for the security lender/borrower.
 - a.2. Positive credit entry in dividends/interest for the security lender and negative credit entry in dividends/interest for the security borrower.

Issue 4

Identification of the Partner Economy and Sector for Manufactured Dividends and Interest

- What is the economy and sector counterpart for manufactured dividends and interest in cases where the security borrower and the security issuer are not in the same economy?

Options

- A. Identify the economy and sector counterpart by the security issuer.
- B. Identify the economy and sector counterpart by the security borrower (actual payer) of the manufactured dividends or interest.

Issue 5

Clarification on Commodities Under RTs

- In addition to securities and gold, commodities are used for RTs, but they are not mentioned in *BPM6* and *2008 SNA*.

Options

- A. Make no changes in the updated BPM and SNA and explain it in other documents (e.g., compilation guide and clarification notes).
- B. Include explanation about the use of commodities in RTs in the updated BPM and SNA.

Issue 6

Supplementary Information on RTs

- RTs are not separately identified in the current presentations in *BPM6* and *2008 SNA*. Provision of cash is recorded under loans or deposits, but other instruments are not recorded.
- A table could be introduced to comprehensively cover loans/deposits, securities, and other items (i.e., gold and commodities) under RTs.

Options

- A. Make no changes in the updated BPM and SNA.
- B. Introduce a table as a memorandum or supplementary item.
- C. Discuss the usefulness of a separate presentation of RTs in the updated BPM and SNA without introducing a table.

Outcomes

Issue 1—Methodological Framework for Recording RTs

- This GN proposes to maintain the current recording of RTs as recommended in *BPM6* and *2008 SNA* (option b). **Almost all public consultation respondents supported the proposal.**

Issue 2—Clarification for Recording of Short (Negative) Positions

- This GN proposes to introduce further clarifications for recording short positions in the IIP and the related entries (including income streams) in the income and financial accounts in the updated BPM and SNA (option b). **All public comments supported the proposal.**

Outcomes

Issue 3—Classification of Income for Security Lender, Borrower, and Short-Seller

- This GN proposes positive credit entries in dividends/interest for the security lender and negative credit entries in dividends/interest for the security borrower to record manufactured dividends and interest (option b.2).
 - The recording of negative credit for the security borrower provides coherence between income and positions in the underlying instrument.
 - This proposal was revised after the public consultation given the majority of respondents supported this recording, indicating that this is the current prevalent practice and there is not enough evidence to justify a change.

Outcomes

Issue 4—Identification of the Partner Economy and Sector Counterpart for Manufactured Dividends or Interest

- This GN recommends identifying the partner for manufactured dividends/interest by the economy and sector of the security issuer, consistent with the positions held by the security lender and borrower (option a).
 - This proposal was also revised based on the public consultation, following the change in the recommendation for Issue 3 to keep consistency between these two recommendations.

Outcomes

Issue 5—Clarification on Commodities Under RTs

- This GN proposes to include commodities (and potentially other non-financial assets) as items that could be used in RTs (option b). **Almost all public consultation respondents supported the proposal.**

Issue 6—Supplementary Information on RTs

- This GN proposes to discuss the usefulness of separate identification of transactions and positions, including the movements of underlying assets that are not recorded in BOP and NA for RTs, without introducing a specific table (option c). **The majority of respondents supported the proposal to discuss the usefulness of separately identifying RTs in the updated BPM and SNA without introducing a table.**

BOPCOM Discussion Outcomes

- Most Committee members supported the proposed recommendations on the six issues presented in the GN. Some members indicated practical challenges to collect information on manufactured payments and underscored the need for providing detailed practical guidance on all aspects of reverse transactions in the *BPM7 Compilation Guide*.
- One member noted that the proposed approach contributes to some methodological problems, in particular the recording of income flows between parties that do not have a claim on each other.
- Another member noted that the proposed treatment on Issue 4 may lead to bilateral asymmetries among countries as both the lender and the on-buyer will record positive income credits against the issuer, whereas the on-seller will record a negative entry. However, because the negative and one of the two positive entries will cancel out, the proposed approach could contribute to reducing global asymmetries.

Note: BOPCOM Summary of Discussion is posted here:

<https://www.imf.org/external/pubs/ft/bop/2021/pdf/VM1/21-12.pdf>

Questions for the AEG Members

Do the Committee members agree with the proposals to:

Issue 1: *maintain the methodological framework in BPM6 and 2008 SNA;*

Issue 2: *introduce further clarifications for recording short positions in the IIP and the related entries (including income streams) in the updated BPM and SNA;*

Issue 3: *record income for security lenders, borrowers, and on-sellers as explained in the GN, including the recording of negative credit for the security borrower for manufactured interests or dividends;*

Issue 4: *identify the partner economy and sector for manufactured dividends and interest by those of the security issuer;*

Issue 5: *acknowledge commodities (and potentially other non-financial assets) as items used in RTs;*

Issue 6: *discuss the usefulness of separate identification of RTs in the updated BPM and SNA without introducing a table.*

Annex: Recording of Manufactured Dividends and Interest



Table 5: Recording of (1) manufactured dividends and (2) manufactured interest for on-sold securities /3				
Country A		Country B	Balance of Payments	
			Country A	Country B
			Income Account	
Security lender/securities provided under repo	 <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 5px auto;"> manufactured dividends as shares go ex-dividend / accrued manufactured interest </div>	Security borrower/securities acquired under reverse repo	1. Manufactured dividends as shares go ex-dividend (credit)	1. Manufactured dividends as shares go ex-dividend (negative credit)
			2. Accrued manufactured interest (credit)	2. Accrued manufactured interest (negative credit)
			1. Accounts receivable for manufactured dividends - assets (increase)	1. Accounts payable for manufactured dividends - liabilities (increase)
			2. Debt security - assets (increase)	2. Debt security - negative assets (decrease - more negative)

Table 6:-Recording of (1) manufactured dividends payments and (2) manufactured interest payments for on-sold securities /3				
Country A		Country B	Balance of Payments	
			Country A	Country B
			Income Account	
Security lender/securities provided under repo	 <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 5px auto;"> manufactured dividends / manufactured interest payments </div>	Security borrower/securities acquired under reverse repo	1. No recording	1. No recording
			2. No recording	2. No recording
			1. Accounts receivable for manufactured dividends - assets (decrease)	1. Accounts payable for manufactured dividends - liabilities (decrease)
			2. Debt security - assets (decrease)	2. Debt security - negative assets (increase - less negative)

/3 For Tables 5 and 6, the entries should be interpreted as based on debtor/creditor approach for counterpart country/sector attributions.