

## F.3 Reverse Transactions



## F.3 Reverse Transactions<sup>1</sup>

*Reverse transactions (RTs) are arrangements that involve a change of legal ownership of securities or gold with a commitment to repurchase the same or similar securities or gold, either on a specific date or with open maturity. While recognizing that the methodological framework for RTs in the sixth edition of the Balance of Payments and International Investment Position Manual and the System of National Accounts 2008 based on the concept of economic ownership remains fully relevant, this Guidance Note revisits current concepts, definitions, and treatment of RTs to ensure consistent recording of different arrangements under RTs and to provide further methodological guidance and clarifications on recording positions and transactions associated with RTs in external sector statistics and national accounts.*

### SECTION I: THE ISSUE

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#### BACKGROUND

- 1. The *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)* and *System of National Accounts 2008 (2008 SNA)* identified Reverse transactions (RTs) (including short positions and investment income that is receivable/payable while a security is on-sold) as one of the topics for possible future research work** (as stated in *BPM6* paragraph 1.43 (d) and in *2008 SNA* paragraph A4.46). The update of the *BPM6* and the *2008 SNA* presents an opportunity to examine the current concepts, definitions, and treatment of RTs and to provide updates/clarifications in the new generation of international standards.
- 2. As an overview, the *BPM6* and *2008 SNA* describe 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* paragraphs 3.41, 4.159, and 7.58, and *2008 SNA* paragraphs 11.59, 11.74–11.76, 17.254, and A3.94). No transaction in that asset is recorded in balance of payments, and ownership of the asset as shown in international investment position (IIP) is unchanged (*BPM6* paragraph 7.58). Major types of RTs are securities repurchase agreements (repos), securities lending, and gold swaps. A gold swap involves an exchange of gold for foreign exchange deposits with an agreement that the transaction be reversed at an agreed future date at an agreed gold price (*BPM6* paragraph 5.55 and *2008 SNA* paragraph 11.77). Securities and gold in RTs do not change economic ownership (*BPM6* paragraphs 5.54–5.55, and *2008 SNA* paragraphs 11.76–11.77) and are assets of the original holder/owner.
- 3. Repos, securities lending with cash collateral, and sale-buybacks are different terms for arrangements with the same economic effect as a securities repurchase agreement.** All involve the provision of securities as collateral for a loan or deposit (*BPM6* paragraphs 3.41 and 5.52, and *2008 SNA* paragraphs 11.59 and 11.75). Additional guidelines are also provided for RTs classified as a deposit if they involve liabilities of a deposit-taking corporation and are included in broad money (*BPM6* paragraph 5.53 and *2008 SNA* paragraph 17.254). If a securities repurchase agreement does not involve the supply of cash (i.e., an exchange of one security for another, or one party supplies a security without collateral),

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<sup>1</sup> Prepared by Patrick McGuire and Branimir Gruic (Bank of International Settlements, BIS) and Artak Harutyunyan, Joji Ishikawa, and Rita Mesias (International Monetary Fund, IMF) with input from Perry Francis (Bank of England), Esti Kemp (Financial Stability Board, FSB), and Barend de Beer (South African Reserve Bank).

there is no loan or deposit (*BPM6* paragraph 5.53 and *2008 SNA* paragraph 11.75) and no transaction should be recorded in the financial account (*BPM6* paragraph 6.90).

4. **With the recognition by the majority of FITT members that the methodological framework of RTs in *BPM6* and *2008 SNA* based on the concept of economic ownership remains broadly relevant, this GN examines areas that need further methodological guidance and clarifications.**<sup>2</sup>

#### ISSUES FOR DISCUSSION

##### ***Issue 1—Methodological Framework for Recording RTs***

5. ***BPM6* and *2008 SNA* describe RTs as arrangements that involve a change in legal ownership but no change in economic ownership of the underlying assets (securities or gold), and that no transaction in that asset is recorded in balance of payments and national accounts.** Securities and monetary gold are financial assets and thus the fees for securities lending without cash collateral and gold loans are payments for putting a financial instrument at the disposal of another unit. Accordingly, fees on securities lending and gold loans accrued to the owner/lender are treated as interest (*BPM6* paragraph 11.68 and *2008 SNA* paragraph A3.121), a treatment introduced in the *2008 SNA* and *BPM6*<sup>3</sup> implying recording of interest without recognizing the underlying financial instrument/debt in the IIP/SNA balance sheets.

6. **Although the treatment above is well established in NA and balance of payments, a number of resulting implications for the recording might be seen as artefacts, in particular the recording of negative assets in on-selling or the recording of income flows between parties that do not have a claim on each other (recognized as an economic asset in the *SNA/BPM* system).** In this context, launching a thorough examination of other accounting alternatives could be considered, in particular, the recognition of a liability of the security borrower to the security lender. This examination would also need to take into account the experience drawn from the global financial crisis of 2008, which showed that the existing securities lending/borrowing links had meaningful economic effects—security lending liquidity squeezes (i.e., similar to cash squeezes) could indeed occur.

7. **The options to record RTs in ESS and NA are:**

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

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

8. **The party that acquires securities under a repurchase agreement or security lending (borrowing) can on-sell the securities due to the change in legal ownership of the securities**

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<sup>2</sup> RTs also involve issues related to data compilation, including source data (e.g., the use of custodian data with confidentiality restrictions for certain types of client accounts). Given that these compilation issues do not have direct impact on the methodology, it could be discussed in the context of compilation guidance such as a compilation guide.

<sup>3</sup> The Advisory Expert Group on National Accounts (AEG) noted that the amounts concerned were limited.

(*BPM6* paragraph 11.67). This on-selling of the asset that is not recorded on the balance sheet is classified as short selling and recorded as a negative asset (*BPM6* paragraphs 7.28 and 7.61). *BPM6* does not clearly explain that the use of negative positions is to address the problem raised by the double-counting of the security by both the economic (original) owner and the final owner, nor what are the implications for who-to-whom presentations by counterpart sector and geography. 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). Furthermore, the case of short-selling is not mentioned in the SNA.

9. **The options to address these issues are:**

- a. 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 of short positions (including their income streams and from-whom-to-whom implications) in the income and financial accounts for RTs in the updated *BPM* and *SNA*.

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

10. **The economic owner of securities continues recording dividends and the accrual of interest on the securities even when the legal ownership of the security changes under an RT, including when the security is further on-sold to a third party.** If the RT covers the period when dividends or interest are payable, the security taker (borrower) is typically obliged to compensate the security provider (lender). Payments to the security lender to compensate for the dividends, when on-selling is involved, are called “manufactured dividends” (*BPM6* paragraph 11.69). It can be considered whether the updated *BPM* and *SNA* should provide further methodological guidance on the treatment of income.<sup>4</sup>

11. **The options to provide methodological clarifications in the updated *BPM* and *SNA* are:**

- a. 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 this GN in the updated *BPM* and *SNA*, in particular, including a clarification of the recording of manufactured interests and dividends as either:
  - b.1. Credit/debit entries in interest for the security lender/borrower
  - b.2. Positive credit entry in interest/dividends for the security lender and negative credit entry in interest/dividends for the security borrower.

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<sup>4</sup> Annex II presents the records related to RTs in the balance of payments and IIP, highlighting methodological proposals in red.

**Issue 4—Identification of the Partner Economy and Sector Counterpart for “Manufactured Dividends or Interest”<sup>5</sup>**

12. **The identification of the partner economy and sector counterpart for the payment of “manufactured dividends and/or interest” could also be an issue, given that the security borrower may not be in the same economy of the security issuer.**
13. **The options to identify “manufactured dividends or interest” are:**
  - a. Identify the partner economy and sector counterpart by the security issuer (consistent with option b.2 of Issue 3).
  - b. Identify the partner economy and the counterpart sector by the security borrower (actual payer) of the “manufactured dividends or interest” (consistent with option b.1 of Issue 3).

**Issue 5—Clarification on Commodities Under RTs**

14. **In addition to securities and gold, commodities are used for RTs.** The European Securities and Market Authority (ESMA) technical standards under Security Financing Transaction Regulation (SFTR) and under certain amendments to European Union (EU)’s market infrastructure (EMIR-SFTR) specify that commodity lending contracts exist in some EU jurisdictions (SFTR, paragraph 506). However, these transactions are not mentioned in *BPM6* and *2008 SNA*. Given that for RTs using commodities, the same principles apply, this gap could be easily addressed by including commodities in the discussion of RTs.
15. **The options to address this issue are:**
  - a. No changes in the updated *BPM* and *SNA* and explain it in other documents (e.g., compilation guide and clarification notes).
  - b. Include commodities in the discussion on RTs in the updated *BPM* and *SNA*.

**Issue 6—Supplementary Information on RTs**

16. **RTs are not separately identified in the current presentations of ESS and NA.** Provision of cash is recorded under loans or deposits, but other instruments are not recorded because there is no change in their economic ownership, as mentioned in Issue 1. To identify these items, a table could be introduced to show loans/deposits, securities, and other items (i.e., commodities) under RTs, covering movements of these assets comprehensively regardless of the change in their economic ownership. The table could be designed to be in line with *Standards and Processes for Global Securities Financing Data Collection and Aggregation* of the Financial Stability Board (FSBDS)<sup>6</sup>, as illustrated below.<sup>7</sup>

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<sup>5</sup> As part of issues associated with residence, *BPM6* provides guidance on data by partner economy (paragraphs 4.146–164).

<sup>6</sup> FSBDS requires collection of both domestic and cross-border deals with identification of counterparty country.

<sup>7</sup> For more details, please refer to [Standards and Processes for Global Securities Financing Data Collection and Aggregation](#). The [Bank of Japan](#) has released the securities financing transactions (SFT) statistics showing the size of Japanese RTs market measured from the securities provider side was around \$1.6 trillion end-June 2020, of which 25 percent were cross-border positions.

**Table 1. Model Table on Assets Under RTs**

Type of asset under RTs	Role of asset in RTs	
	Provided/lent	Received/borrowed
Cash		
Securities		
Other		

17. **The entries in the table can separately identify assets provided/lent and those received/borrowed under RTs.** For example, for a repo, cash received is reported in cash—received/borrowed and securities provided are reported in securities—provided/lent.
18. **The options to show supplementary information on RTs are:**
- a. No changes in the updated *BPM* and *SNA*.
  - b. Introduce a table as a memorandum or supplementary item.<sup>8</sup>
  - c. Discuss the usefulness of separate presentation of RTs in the updated *BPM* and *SNA* without introducing a table.

## SECTION II: OUTCOMES

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### RECOMMENDATION FOR ISSUE 1—OPTION B:

19. **This GN proposes to maintain the current recording of RTs as recommended in *BPM6* and *2008 SNA*, that is, no change in economic ownership of the underlying assets, and recording of securities (equity and debt securities)/gold lending fees as interest and short positions generated by on-selling as negative assets.** Weighing-up all the arguments for and against, the authoring team does not believe that there is a strong enough case to merit changing the current recording framework. Changes to the methodological framework are justified when there are strong needs supported by the majority of compilers and users. The authoring team recognizes that the current framework for recording RTs has been extensively discussed and agreed in 2005 during the last update of the *2008 SNA* and *BPM6* and is widely supported by compilers and users.

20. **Most FITT members also supported the proposal.** One member presented another option to create a new financial asset/liability to record transactions and positions in securities under RTs in the accounts of the security lender/borrower respectively (see Annex I for details). The authors are however not in favor of recording securities borrowing as liabilities to avoid inflating the balance sheets in the NA as well as in the IIP and thus deviating from the risks and rewards principle this approach would entail.

21. **The authors' view is that a supplementary table discussed under Issue 6 could be used (with the necessary details) to meet the needs for the separate identification of RTs without changing the methodological framework.** By capturing securities lent (asset side) and those borrowed or acquired as collateral, the table would presumably allow linking the current *SNA* portfolio with the

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<sup>8</sup> Memorandum items are part of the standard presentation; supplementary items are compiled depending on the relevance in the economy.

alternative approach under option a. The table could also be expanded to record income streams related to RTs so that it could be separately identified in the countries where those transactions are significant.

#### RECOMMENDATION FOR ISSUE 2—OPTION B:

22. **Monetary and Financial Statistics Manual and Compilation Guide (paragraph 4.73–4.78) clarifies some of the above questions related to short positions.** Since the publication of *BPM6*, new data initiatives have been introduced targeting RTs to provide details on RT aggregates. Re-use of collateral is of special interest in such initiatives, and the next generation of international standards should pay closer attention to new developments in RTs to provide adequate guidance to compilers for their proper recording.<sup>9</sup> Introducing tables that clarify recording of different types of RTs including their income streams, along the lines of the detailed tables in Annex II would provide useful guidance for compilers.

#### RECOMMENDATION FOR ISSUE 3—OPTION B.1:

23. **The dividends/interest from the security issuer do not belong to the security borrower, given that it does not have the economic ownership of the security.** Therefore, those receipts should not be recorded in income account, as shown in detail in Tables 2 and 3 in Annex II.

24. **In cases where the security borrower has on-sold the security, it has to pay “manufactured dividends/interest” to the security lender without receiving dividends/interest from the security issuer.** It is the view of the authors, that, since the security borrower does not have any equity asset or liability that generates the dividends/interest (they are still recorded by the securities lender), “manufactured dividend/interest” should not be recorded in dividends/interest but should be regarded as fees, therefore, recorded in interest with offsetting transactions in the financial account as shown in Table 5 and 6 in Annex II. This recording also prevents double-counting of dividends/interest from the same security.

25. **Some members of the FITT however argue that the recording of an interest flow for manufactured interest/dividends between the security borrower and lender when no claim is recorded between these two parties constitutes an accounting artefact.** Following this reasoning, option b.2 would be proposed by these TT members, to record a negative credit interest/dividend for the security borrower that offsets the double recording of positive credits (by the security lender and the security holder to whom the security was on-sold). This negative credit would also be consistent with the negative asset recorded by the security borrower and would match (for debt securities) its increasingly negative value when interest accrues.

26. **In any case, in practice, the security lender might not know whether the dividends/interest come from the security issuer (passed on by the security borrower as described above) or “manufactured” by the security borrower and might record both cases as dividends/interest accruing on the underlying asset.** In case the asymmetry in the data between the economies and sectors of the security lender (which would record dividends/interest received from the security issuer) and the security borrower (which would record fees [therefore, as interest] paid to the security lender)

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<sup>9</sup> Financial Stability Board's *Non-Cash Collateral Re-Use: Measure and Metrics* provides an overview of issues and defines possible measures to track RTs for the purpose of financial stability (See <https://www.fsb.org/wp-content/uploads/Non-cash-Collateral-Re-Use-Measures-and-Metrics.pdf>).



becomes significant, compilers are encouraged to survey the main reporters of repo/security lending transactions to address it.

27. **A few members suggested surveying national compilers to explore best practices on, and the feasibility of, this practical issue.** The public consultation would provide an opportunity to collect compilers' views and practices on recording manufactured dividends. Furthermore, surveying security custodians would allow to investigate whether the necessary information on securities lending, repo, and short-selling could be accessible from their records. In case no information is available to the security lender to differentiate dividends passed on by the security borrower (as shown in Table 2 and 3 in Annex II) and manufactured dividends paid by the security borrower (as shown in Table 5 and 6 in Annex II), the compilers in the economy of the security lender may consider recording both as fees (therefore, as interest) receivable from RTs.

#### RECOMMENDATION FOR ISSUE 4—OPTION B:

28. **It is a natural conclusion to identify the partner for “Manufactured dividends/interest” by the economy and sector of the security borrower (actual payer) when option b.1 for Issue 3 is chosen, not by those of the issuer.** However, as discussed in Issue 3, the security lender might not know whether the dividends/interest come from the security issuer or “manufactured” by the security borrower and may record both as dividends from the security issuer. In case the asymmetries in data for the security lender, borrower, and issuer become significant, compilers are encouraged to cooperate and survey the main reporters for repo/security lending transactions to address the asymmetries. Under option b.2 for Issue 3, the appropriate economy and sector counterpart (for a security lender in a domestic economy) for manufactured interest would be, in concept, that of the issuer and not of the borrower, consistent (for debt securities) with the position held by the lender against the issuer and the associated transactions changing these positions.

#### RECOMMENDATION FOR ISSUE 5—OPTION B:

29. **The recording principles of RTs that involve commodities are the same as those for securities and gold.** The current market practices and national standards (e.g., SFTR) already provide reporting basis for RTs that involve commodities. The recommended expansion in asset classes (option b) would enable seamless coverage of RTs in ESS and NA and improve the consistency among international standards.

#### RECOMMENDATION FOR ISSUE 6—OPTION C:

30. **Separate identification of RTs with the information on the underlying assets that are lent/collateralized but not recorded in ESS and NA would have high analytical value, particularly for economies that are actively involved in RTs.** However, given that related data are already available from other international initiatives, and that RTs may be limited in some countries, this GN does not recommend introducing a specific table to separately identify RTs in the updated *BPM* and *SNA*.

31. **Instead, this GN recommends that the updated *BPM* and *SNA* discuss the usefulness of separate identification of repo-related transactions and positions and encourage economies engaged in RTs to prepare supplementary information on RTs similar to the table in this GN.<sup>10</sup>**

**Questions for Discussion:**

- 1) *Do you agree with the proposals to (i) maintain the methodological framework in BPM6 and 2008 SNA as described in Issue 1; (ii) 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 (as described in Issue 2); (iii) record income for security lenders, borrowers, and on-sellers as described in Issue 3, including the recording of interest debits for the security borrower for manufactured interests or dividends (b.1); (iv) identify the partner economy and sector for “manufactured dividends and interest” as described in Issue 4; and (v) include commodities in the items used in RTs as described in Issue 5?*
- 2) *Do you agree with the proposal to discuss the usefulness of separate identification RTs in the updated BPM and SNA without introducing a table as described in Issue 6? This proposal would be forwarded to the authors of F.1 who are looking at the overall classification of financial sectors and instruments*

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<sup>10</sup> Apart from this GN, the authors of the GN on F.1 topic *more disaggregated institutional sector and financial instrument breakdowns* may consider introducing new items related to RTs (e.g., a “of which” item under loans).

## Annex I. Alternative Recording of Securities Lending in the SNA<sup>11</sup>

1. **An alternative recording for RT transactions** would consist in recording securities lending as separate transactions and positions that would be coded AF.39 ('debt securities lent') or AF.59 ('equity lent'), recognized as an economic asset of the security lender and a liability of the security borrower in the SNA.

2. **Instead of not being recorded, as in 2008 SNA, a clean security lending operation (here in long-term debt securities) would thus entail** (i) reclassifying the instrument lent from AF.32 to AF.39 in the balance sheet of the lender (total portfolio AF.3 unchanged) by way of transactions, and (ii) more radically change the presentation in the security borrower's balance sheet, who would show the debt security borrowed as an asset (AF.32) with a matching liability in 'debt securities lent' (AF.39), as follows:<sup>12</sup>

<b>Security lending - accounting proposed - transactions</b>							
<b>Security borrower - Transferee</b>				<b>Security lender - Transferrer</b>			
Assets		Liabilities		Assets		Liabilities	
F.3	100	F.39	100	F.3	0		
F.32	100			F.32	-100		
		F.39	100	F.39	100		
		B9	0			B9	0

3. **Consistent with this recording of security lending, repos or similar buy and sell back transactions would be recorded as two back-to-back transactions: a loan in cash and a loan in securities, as follows:**

<b>Repos - accounting proposed - transactions</b>							
<b>Cash giver</b>				<b>Cash taker</b>			
Assets		Liabilities		Assets		Liabilities	
F.2	-100			F.2	100		
F.4	100					F.4	100
F.3	100	F.3	100	F.3	0		
F.32	100			F.32	-100		
		F.39	100	F.39	100		
		B9	0			B9	0

4. **The proposed alternative recording inflates the balance sheets of security borrowers/cash takers, compared to the current 2008 SNA recording.** However, showing the security lent as an explicit position between security lenders and borrowers has the advantage to appropriately reflect the fact that the security borrower has a present obligation to return a specific asset (which is not cash) and that the security lender is exposed to risks (towards the security borrower, although the security lender

<sup>11</sup> Prepared by Philippe de Rougemont (Eurostat).

<sup>12</sup> The codes used in the tables are those within the classification hierarchies of the 2008 SNA (see Annex 1: The Classification Hierarchies of the SNA and Associated Codes).

usually holds a mitigating collateral). Short-selling would then create no difficulty, as the security borrower already held in its balance sheet the security to be on-sold, which would avoid the need to record a negative asset.

5. **The AF.39 link would have the same valuation as the underlying security lent, and the property income under AF.39/AF.59 would reflect the interest/dividend passed on to the lender or otherwise manufactured, plus fees paid if any.** This approach eliminates the appearance of a property income flow from the security borrower to the security lender upon short-selling, which is difficult to defend in concept (there is no interaction between them at that time) and entails inaccurate from-whom-to-whom accounts, including creating anomalies when calculating consolidated general government accounts. An example is the social security subsectors holding central government bonds and engaging in RT with banks that would on-sell them: the interest on these bonds would not be consolidated following option b.1 in the GN (while the bonds themselves are consolidated when reporting general government debt).

6. **The proposed alternative would align the asset positions of transferors/transferees (e.g., AF.32) on the information held by custodians but has the disadvantage of deviating from the current recording of IFRS/IPSAS and, presumably, from the risks and rewards principle.**

## **Annex II. Recording RTs and Related Transactions in Balance of Payments and IIP**

**1. The following records need to be made for dividends (as shares go ex-dividend)/accrued interest by the security lender, security borrower, and the security issuer:**

- Income account: A credit entry in dividends (as shares go ex-dividend)/interest accrued for the security lender and a debit entry in dividends/interest accrued for the security issuer.
- Financial account: An increase in accounts payable for dividends (credit) and in security liabilities for accrued interest (credit) for the security issuer. An increase in accounts receivable for dividends (debit) and in security assets for accrued interest (debit) for the security lender.
- No recording for the security borrower.

**2. Further, the following recordings need to be made for dividend/interest cash payments by the security lender, security borrower, and the security issuer:<sup>13</sup>**

- Income account: No recording for the security lender, security borrower, and security issuer.
- Financial account: A decrease in accounts receivable for dividend receipts (credit) and a decrease in security assets for interest receipts (credit) for the security lender. A decrease in accounts payable for dividend payments (debit) and a decrease in security liabilities for interest payments (debit) for the security issuer.
- No recording for the security borrower, other than an initial increase in currency and deposits (for dividend/interest receipt from the security issuer) followed by a decrease in currency and deposits (for subsequent dividend/interest payment to the security lender) in the financial account.<sup>14</sup>

**3. When securities acquired under repo or security lending are on-sold to third parties, this gives rise to negative assets in the balance-sheet (corresponding to the IIP) of the security borrower who on-sells the securities. The following recordings are made:**

- Financial account: A decrease in security assets (credit) for the on-seller (security borrower) of the security, and an increase in security assets (debit) for the purchaser of the security.
- Balance-sheets and IIP: A negative position in security assets for the on-seller, assuming the opening position is zero, and a positive position in security assets for the security purchaser.

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<sup>13</sup> For simplicity, corresponding entries in currency and deposits are excluded.

<sup>14</sup> In case the cash is not transferred immediately, the security borrower records accounts payable.

4. **When securities acquired under repos or security lending are on-sold to third parties, the securities borrower has still to pay so-called “manufactured dividends” and “manufactured interest” to the security lender.** The following recordings need to be made:<sup>15</sup>

- Income account: two alternatives are considered,
  - Credit/debit entries in interest for “manufactured dividends” (as shares go ex-dividend)/accrued “manufactured interest” for both the security lender and the security borrower, respectively.
  - Credit entries in interest or dividend for manufactured interest/dividends for the securities lender, and a negative credit entry in interest or dividend for the securities borrower (consistent with the negative asset and to match, for debt securities, the corresponding further decrease in negative asset position reflecting the accrual of interest on the underlying instrument).
- Financial account: Accounts receivable and security assets increase (debit) for “manufactured dividends” and “manufactured interest”, respectively, for the security lender. Accounts payable increase and security assets decrease<sup>16</sup> (credit) for “manufactured dividends” and “manufactured interest”, respectively, for the security borrower.<sup>17</sup>

5. **Finally, when the “manufactured dividends/interest” are paid for on-sold securities, the following recordings are made:**

- Income account: No entries for both the security lender and the security borrower.
- Financial account: Accounts receivable and security assets decrease (credit) for “manufactured dividends” and “manufactured interest” payments, respectively, for the security lender. Accounts payable decrease and security assets increase<sup>18</sup> (debit) for “manufactured dividends” and “manufactured interest” payments, respectively, for the security borrower.

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<sup>15</sup> Fees on securities lending and gold loans accrue to the security owner and are treated as interest (*BPM6* paragraph 11.68).

<sup>16</sup> The negative asset position increases further (more negative) by the amount of accrued “manufactured interest.”

<sup>17</sup> In the detailed financial accounts (from-whom-to-whom), while the increase in accounts payable observed in the equity security borrower’s accounts has for counterpart the security lender, the decrease in assets in the debt security borrower’s accounts balance sheet has for counterpart the security issuer, instead.

<sup>18</sup> The negative asset position decreases (becomes less negative) by the amount of paid “manufactured interest.”

Note: For simplicity, corresponding entries in currency and deposits are excluded. For all below tables, recordings highlighted in red are the proposals discussed in this GN.

Table 1: RTs - Recording of transactions related to repos and security lending						
Country A		Country B	Balance of Payments			
			Income Account		Financial Account	
			Country A	Country B	Country A	Country B
Repo/security lending with cash collateral (security lender)		Reverse repo/security lending with cash collateral (security borrower) /1	Interest payable accrued for cash received (debit) /1	Interest receivable accrued for cash provided (credit)	Loan liability (increase) (No recording of securities)	Loan asset (increase) (No recording of securities)
Security lending with security collateral (security lender)		Security lending with security collateral (security borrower)	Security lending fees (recorded as interest) receivable (credit)	Security lending fees (recorded as interest) payable (debit)	No recording	No recording
Security lending without collateral (security lender)		Security lending without collateral (security borrower)	Security lending fees (recorded as interest) receivable (credit)	Security lending fees (recorded as interest) payable (debit)	No recording	No recording

/1 In cases where security lending fees are involved, they should be recorded separately. Security lending fees are recorded as interest (BPM6 §11.68).  
 Note: → orange arrow represents a change in the legal ownership, but not in the economic ownership.

Country A		Country B		Country C	Balance of Payments		
					Country A	Country B	Country C
					Income Account		
Security lender/securities provided under repo	← dividends as shares go ex-dividend/ accrued interest	Security borrower/securities acquired under reverse repo	← dividends as shares go ex-dividend/ accrued interest	Security issuer	1. Dividends <u>as shares go ex-dividend</u> (credit)	1. No recording	1. Dividends <u>as shares go ex-dividend</u> (debit)
					2. Accrued interest for the period (credit)	2. No recording	2. Accrued interest for the period (debit)
					Financial Account		
					1. Accounts receivable for dividends - assets (increase)	1. No recording	1. Accounts payable for dividends - liabilities (increase)
					2. Security assets (increase)	2. No recording	2. Security liabilities (increase)

Country A		Country B		Country C	Balance of Payments		
					Country A	Country B	Country C
					Income Account		
Security lender/securities provided under repo	← dividends payments/ interest payments	Security borrower/securities acquired under reverse repo	← dividends payments/ interest payments	Security issuer	1. No recording	1. No recording	1. No recording
					2. No recording	2. No recording	2. No recording
					Financial Account		
					1. Accounts receivable for dividends - assets (decrease)	1 & 2. No recording other than increase in currency and deposits (for dividend/interest receipt from Country C) followed by decrease in currency and deposits (for dividend/interest payment to Country A)	1. Accounts payable for dividends - liabilities (decrease)
					2. Security assets (decrease)		2. Security liabilities (decrease)

Country B		Country D	Balance of Payments		International Investment Position	
			Financial Account			
			Country B	Country D	Country B	Country D
Security borrower/securities acquired under reverse repo	security ←→ cash	Security purchaser	Security assets (decrease/credit)	Security assets (increase/debit)	Security assets (negative position) /2	Security assets (positive position)

/2 Assuming the opening position is zero.





Table 5: Recording of (1) manufactured dividends and (2) accrued manufactured interest for on-sold securities				
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;">           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 (recognized as fees and recorded as interest accrued /credit)	1. Manufactured dividends as shares go ex-dividend (recognized as fees and recorded as interest accrued/debit)
			2. Accrued manufactured interest for the period (recognized as fees and recorded as interest accrued/credit)	2. Accrued manufactured interest for the period (recognized as fees and recorded as interest accrued/debit)
			Financial Account	
			1. Accounts receivable for manufactured dividends - assets (increase) 2. Security assets (increase)	1. Accounts payable for manufactured dividends - liabilities (increase) 2. Security negative assets (decrease)

Table 6: Recording of (1) manufactured dividends payments and (2) manufactured interest payments for on-sold securities				
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;">           manufactured dividends payments/ manufactured interest payments         </div>	Security borrower/securities acquired under reverse repo	1. No recording 2. No recording	1. No recording 2. No recording
			Financial Account	