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For information

Treatment of Cash Collateral

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Paper for information

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This note explores differences in the methodological treatment of cash collateral (repayable margin) in the last editions of the IMF's Balance of Payments and International Investment Position Manual (BPM6) and the System of National Accounts (2008 SNA) on the one hand, and the European System of Accounts (ESA 2010) on the other. After studying the differences, De Nederlandsche Bank (DNB) and Statistics Netherlands (CBS) came to the conclusion that the treatment in ESA 2010 seems to be most in line with the characteristics of cash collateral in practice. IMF BOPCOM members were requested to indicate whether they agree with this conclusion and to consider further guidance on this issue in the context of implementing BPM6. In the consultation process to Committee members, they unanimously supported the inclusion of this item in the research agenda and the postponement of the discussion until the update of BPM6, as it goes beyond a simple clarification and would require a change in the text of the BPM6.

I. CLASSIFICATION OF CASH COLLATERAL

1. In the process towards reaching full consistency between the BOP/IIP and the Rest-of-the-World account in the Netherlands, DNB and CBS encountered that the *BPM6* and the *2008 SNA* approach cash collateral (repayable margin) differently from the *ESA 2010*. The goal of full consistency requires that DNB and CBS apply one harmonised methodology.
2. The definition and recommended recording of cash collateral according to the *BPM6* is provided in paragraph 5.94 (a): “Repayable margin consists of cash or other collateral deposited to protect a counterparty against default risk. Ownership of the margin remains with the unit that deposited it. Repayable margin payments in cash are classified as deposits (if the debtor’s liabilities are included in broad money) or in other accounts receivable/payable”.
3. However, the recording of cash collateral as other accounts receivable/payable seems at odds with the normal usage of the other accounts receivable/payable item. What to include in this item follows, rather implicitly, from the *BPM6* paragraphs 5.69 and 5.73. The examples in paragraph 5.73 indicate that other accounts receivable/payable is intended for the recording of transitional balance sheet items that are the result of timing differences. Cash collateral is not a transitional balance sheet item as it is not the result of timing differences.
4. The treatment in *2008 SNA* seems to be consistent with the *BPM6*. Inter alia, paragraphs 11.124 and 11.59 in *2008 SNA* are relevant for the recording of repayable margin payments for which the debtor’s liabilities are not included in broad money. *2008 SNA*

paragraph 11.124 states: “Repayable margin payments in cash are transactions in deposits, not transactions in a financial derivative. The depositor has a claim on the exchange or other institution holding the deposit. Some compilers may prefer to classify these margins within other accounts receivable or payable in order to reserve the term deposits for monetary aggregates.” And *2008 SNA* paragraph 11.59: “Repayable margin payments in cash related to financial derivative contracts (described below) are included in other deposits, as are overnight and very short-term repurchase agreements if they are considered part of the national definition of broad money”. The definition of *other accounts receivable or payable* in *2008 SNA* is similar to the *BPM6* (see *2008 SNA* paragraphs 11.127, 13.84 and 17.294).

5. The treatment as described in the *ESA 2010* differs from the treatments in the *BPM6* and *2008 SNA* and seems more in line with the nature of cash collateral. *ESA 2010* paragraph 5.136 is relevant for the recording of repayable margin payments for which the debtor’s liabilities are not included in broad money, declaring that repayable margin payments should be recorded as a loan (unless the counterpart is a monetary financial institution): “The loans category includes the following: ... (d) repayable margin payments related to financial derivatives which are liabilities of institutional units other than monetary financial institutions” as well as “(j) loans paid as a guarantee for fulfilling certain obligations”. Not recording repayable margin payments as other accounts receivable/payable is in line with the definition of other accounts receivable/payable provided in *ESA 2010* paragraph 5.240 (“other accounts receivable/payable are financial claims arising from timing differences between distributive transactions or financial transactions on the secondary market and the corresponding payments”), as cash collateral does not arise as a result of timing differences.

II. DNB AND CBS CONCLUSIONS

6. Since June 2018, DNB and CBS publish a fully consistent BOP/IIP and ROW-account and therefore have to apply the same methodology. In the opinion of DNB and CBS, the recording from *ESA 2010* (which is followed by CBS) does more justice to the nature of cash collateral than the treatment described in the *BPM6* and *2008 SNA*. For this reason, DNB has decided to record cash collateral in the BOP/IIP as either deposits or loans, depending on whether the counterparty is, respectively, a monetary financial institution or not.

III. COMMITTEE CONSULTATION PROCESS AND NEXT STEPS

7. Committee members were invited to indicate whether they agree with this treatment of cash collateral and whether they consider it appropriate to provide further guidance (e.g. through a guidance note) in the context of the implementation of the *BPM6* and/or place this issue on the research agenda for the *BPM7*.

8. Comments received from members unanimously supported the inclusion of the item in the research agenda and the postponement of the discussion until the update of *BPM6*, on

the grounds that it goes beyond a simple clarification and would require a change in the text of the *BPM6* (and also impact other Manuals).

9. Accordingly, it is proposed that this item be included in the research agenda. The Committee also suggested the AEG/ISWGNA consider it for their research agenda on national accounts so as to facilitate a cross-domain resolution to the issue.