

Approved/Final Version

**INTERNATIONAL MONETARY FUND**

**Statistics Department**



**Treatment of Securities Under Reverse Transactions in Reserve  
Assets—Clarification**



## Treatment of Securities Under Reverse Transactions in Reserve Assets— Clarification<sup>1</sup>

*Monetary authorities are often engaged in reverse transactions (RTs) as part of their reserve asset management strategies. Major types of RTs are securities repurchase agreements (repos), securities lending, and gold swaps. The recording of securities provided as collateral under RTs in reserve assets is described in the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) and Guidelines for the International Reserves and Foreign Currency Liquidity Template (IRFCL Guidelines). However, while the IRFCL Guidelines recommend excluding securities provided as collateral from reserve assets, BPM6 could be interpreted as allowing inclusion of securities in reserve assets despite not being readily available for balance of payments financing needs. This note clarifies that the treatment set out in the IRFCL Guidelines is the right one to follow and recommends reclassifying securities provided as collateral under RTs from reserve assets to portfolio investment assets if they are not readily available for balance of payments financing needs.<sup>2 3</sup>*

### SECTION I: THE ISSUE

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#### CURRENT GUIDANCE IN *BPM6* AND THE *IRFCL GUIDELINES*

1. ***A securities repurchase agreement (repo) is an arrangement involving the provision of securities in exchange for cash with a commitment to repurchase the same or similar securities at a fixed price.*** The commitment to repurchase may be either on a specified future date (often one or a few days hence) or an “open” maturity (paragraph 5.52 of the *BPM6*). A repo is recorded as a loan or deposit with the securities provided as collateral. The securities provided as collateral are kept on the balance sheet of the original owner (the cash borrower) because there is no change of economic ownership of the securities.<sup>4</sup>

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<sup>1</sup> Prepared by Niamh Sheridan (Strategy, Policy, and Review Department, IMF), Borys Cotto, Emma Angulo, and Joji Ishikawa (Statistics Department, IMF).

<sup>2</sup> The recommendations outlined in this note were approved by the Committee via written consultation.

<sup>3</sup> March 2022 IRFCL Template data suggest that, for the countries that include collateralized securities and monetary gold in their reserve assets, the reclassification could affect their reserve assets by a maximum of 0.2 percent to 36.5 percent (10.6 percent on average) as shown in Annex I. The compilation of the IRFCL Template is a requirement to subscribe to the IMF’s Special Data Dissemination Standard (SDDS) or adhere to the SDDS Plus. Some countries that have not yet subscribed to the SDDS also compile the Template. As of September 2022, 89 countries/economies report the Template to the IMF.

<sup>4</sup> *BPM6* and other statistical manuals are also consistent with the secured-borrowing accounting model prescribed by the international accounting standards. That is, if the transaction is deemed a secured borrowing, securities collateral remains on the balance sheet of the security seller/cash borrower (the transferor). Therefore, the transferor should recognize the cash received, record the obligation to return the funds to repurchase the financial asset (collateralized liability), and apply the established reporting provisions to distinguish securities collateral from securities held to maturity and those available for sale.

2. **BPM6 defines reserve assets and provides two options for the treatment of securities under RTs in reserve assets.**<sup>5</sup> Paragraph 6.88 of the *BPM6* states that securities that have been provided under RTs by the monetary authorities are assets of the monetary authorities and can be (a) maintained as reserve assets with the loan generated reported as a reserve-related liability (a memorandum item) if the liability is to a nonresident,<sup>6</sup> or (b) excluded from reserve assets and reclassified as portfolio investment assets. Also, paragraph 6.82 of the *BPM6* states that allocated and unallocated gold accounts with nonresidents out on swap by the monetary authorities for cash collateral are either (a) included as reserve assets of the original owner with the loan generated reported as a reserve-related liability if the liability is to a nonresident, or (b) excluded from reserve assets and either demonetized (gold bullion) or reclassified as other investment, currency and deposits, assets (unallocated gold accounts).

3. **However, securities or monetary gold under RTs are collateralized and generally not readily available for balance of payments financing needs because restrictions to a cash borrower's control of its securities collateral are imposed during the tenor of the repo agreement.** Consequently, allowing securities or monetary gold provided as collateral to remain in reserves [Option (a)] could not be fully consistent with the *BPM6* definition of reserve assets, which requires that the assets are readily available.

4. **The IRFCL Guidelines—which were last updated in 2013 (i.e., after BPM6)—clarify that to be recorded in reserve assets, securities under repos should meet the same criteria as any other assets.** Paragraph 85 (i) states that *to consider the recording of the securities from the perspective of the cash borrower under the repo, the securities should be assessed against the criteria for reserve asset treatment and, if they are not liquid or readily available for meeting balance of payments financing needs (or are available for meeting balance of payments financing needs only if a substitute reserve asset has to be provided as collateral), they should be excluded from the cash borrower's reserve assets.*

## COUNTRY PRACTICES

5. **Many countries record securities or monetary gold provided as collateral in reserve assets** (Annex I). As of March 2022, 24 out of 29 economies reporting RT activities in the IRFCL Template declared securities or monetary gold provided as collateral under RT transactions (Section IV. (1)(d)) as not being deducted from official reserve assets.<sup>7</sup> These countries' metadata submitted to the IMF do not clarify the accounting basis and economic rationale used by these countries for maintaining collateralized securities in reserves assets. Only five countries reported securities or monetary gold collateral as being

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<sup>5</sup> Paragraph 6.64 of the *BPM6* states that reserve assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes. Reserve assets must be foreign currency assets and assets that actually exist.

<sup>6</sup> The value of securities included in reserve assets and out on repo for cash collateral is identified in the international investment position (a memorandum item) to facilitate an assessment of the level of reserves adjusted for repo activities.

<sup>7</sup> The values of such securities and monetary gold account for 10.6 percent of the total reserve assets of these countries (on average), with a range between 0.2 percent and 36.5 percent.

deducted from official reserve assets in the IRFCL Template. Securities lent with securities as collateral are also reported in Section IV(1)(d). These securities should not be deducted from reserve assets.<sup>8</sup>

## SECTION II: CLARIFICATION

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### PREFERRED RECORDING

6. **This note proposes to resolve the ambiguity across different guidelines by adopting the treatment recommended by the *IRFCL Guidelines*; namely when securities provided as collateral are not readily available for meeting balance of payments financing needs, they should be excluded from the cash borrower's reserve assets and reclassified to portfolio investment assets.**<sup>9</sup> *BPM6* is less clear about the treatment, but the core characteristic of reserve assets—ready availability—should not be violated by keeping the securities in reserve assets if they are not readily available for meeting balance of payments financing needs. This treatment should also be applied to cases where the securities are available for meeting balance of payments financing needs only if a substitute reserve asset is provided as collateral as described in the *IRFCL Guidelines*.<sup>10</sup>
7. **This proposal applies to gold swaps as well.** Monetary gold provided as collateral that is not readily available for meeting balance of payments financing needs should be excluded from the cash borrower's reserve assets and either removed from financial assets (gold bullion) or reclassified as other investment, currency and deposits, assets (unallocated gold accounts).
8. **As the above investigation shows, some countries include both the cash received and the securities or monetary gold provided as collateral in reserve assets.** These countries are strongly encouraged to reclassify those securities or monetary gold if they are not readily available for meeting balance of payments financing needs. Until they are reclassified, predetermined future drains should be

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<sup>8</sup> See Appendix 3 of the *IRFCL Guidelines* for additional information on how authorities' RT activities are required to be reported in the IRFCL Template.

<sup>9</sup> The guidance in this note may also be applied in the compilation of the monetary and financial statistics, specifically the central bank sectoral balance sheet where there is a need to identify separately those foreign assets that meet the definition of reserve assets as defined in *BPM6* and included in the reserve assets subcategory.

<sup>10</sup> The updated Balance of Payments Manual and the updated *IRFCL Guidelines* (discussion for updating the *IRFCL Guidelines* has not started when this clarification note is prepared) will follow the recommendation of this note. This note clarifies the treatment of securities provided as collateral in regard to their inclusion in/exclusion from reserve assets. The securities in reserve assets require a different treatment from the securities in other functional categories because reserve assets have to be readily available for balance of payments financing needs. The current recording of RTs (including for collateral securities) in other functional categories should be maintained. The recording of RTs was also discussed extensively in the *BPM6* update process. For more details, please refer to the approved Guidance Note [F.3 Reverse Transactions](#). The recommendations of the Guidance Note include (i) maintaining the current recording of repos as recommended in *BPM6* and the *System of National Accounts 2008*, 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 and (ii) encouraging economies engaged in repos to prepare supplementary information covering the underlying assets (e.g., securities and gold) that are lent/collateralized but not recorded in external sector statistics and national accounts.

recognized as discussed in paragraph 85 of the *IRFCL Guidelines*.<sup>11</sup> Predetermined drains from RTs are recorded in Section II.3 of the IRFCL Template. The value of securities included in reserve assets and out on repo for cash collateral should be identified in the international investment position as a memorandum item. The received loan is also recognized as a reserve-related liability (a memorandum item in *BPM6*) if the loan is received from a nonresident as described in *BPM6* paragraph 6.88.

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<sup>11</sup> Paragraph 85 of the *IRFCL Guidelines* states the following: "... It is recognized that for practical reasons some countries may include both the cash received and securities transferred under the repo in reserve assets. When both the securities and the cash are recorded in reserves, a predetermined future drain also exists (to be reported in II.3, outflows related to repos)."

### Annex I. Recording of RTs in the IRFCL Template as of March 2022 (US\$ billion)

| Country                                  | Lent/repoed not included in Section I | Lent/repoed included in Section I | Borrowed/acquired not included in Section I | Borrowed/acquired included in Section I | Total Reserves Assets | Lent/repoed included in Section I (As % of Total Reserves Assets) |
|--|---------------------------------------|-----------------------------------|---|---|-----------------------|---|
| <b>Number of countries reporting RTs</b> | <b>5</b>                              | <b>24</b>                         | <b>25</b>                                   | <b>1</b>                                |                       | <b>-10.6%</b>   |
| Argentina                                |                                       | -0.25                             |   |   | 43.14                 | -0.6%   |
| Australia                                | -2.70                                 | 0.00                              | 2.35  | 0.00                                    | 57.62                 |   |
| Belarus, Rep. of                         | 0.00                                  | 0.00                              | 0.02  | 0.00                                    | 7.57                  |   |
| Belgium                                  | 0.00                                  | -4.90                             | 0.16  | 0.00                                    | 42.17                 | -11.6%  |
| Brazil                                   | -14.69                                |                                   | 14.86                                       |   | 353.17                |   |
| Canada                                   |                                       | 0.00                              |   | 3.68                                    | 103.76                |   |
| Chile                                    | -7.07                                 | 0.00                              | 7.40  | 0.00                                    | 48.32                 |   |
| China, P.R.: Hong Kong                   |                                       | -2.80                             | 3.13  |   | 481.61                | -0.6%   |
| China, P.R.: Mainland                    | -12.42                                |                                   | 9.43  |   | 3,373.16              |   |
| Croatia, Rep. of                         |                                       | -1.95                             | 2.83  |   | 26.79                 | -7.3%   |
| Czech Rep.                               |                                       | -12.46                            | 1.08  |   | 173.69                | -7.2%   |
| Denmark                                  |                                       | 0.00                              | 1.24  |   | 80.58                 |   |
| Egypt, Arab Rep. of                      |                                       | -5.21                             | 11.90                                       |   | 35.33                 | -14.7%  |
| Euro Area                                | 0.00                                  | -21.73                            | 4.47  | 0.00                                    | 1,224.24              | -1.8%   |
| European Central Bank                    |                                       | 0.00                              | 1.05  |   | 86.91                 |   |
| Finland                                  | 0.00                                  | 0.00                              | 0.05  | 0.00                                    | 16.62                 |   |
| France                                   |                                       | -0.45                             | 2.37  |   | 251.23                | -0.2%   |
| Germany                                  | 0.00                                  | -0.51                             | 0.52  | 0.00                                    | 308.37                | -0.2%   |
| Hungary                                  | 0.00                                  | -8.19                             | 0.13  | 0.00                                    | 41.04                 | -20.0%  |
| India                                    |                                       | -9.72                             | 9.77  |   | 607.31                | -1.6%   |
| Israel                                   | -3.47                                 |                                   | 0.00  |   | 206.02                |   |
| Italy                                    | 0.00                                  | 0.00                              | 0.14  | 0.00                                    | 234.70                |   |
| Japan                                    |                                       | -205.72                           | 212.21                                      |   | 1,356.07              | -15.2%  |
| Latvia                                   | 0.00                                  | -1.54                             | 0.00  | 0.00                                    | 5.28                  | -29.2%  |
| Lithuania                                |                                       | -0.38                             |   |   | 5.90                  | -6.4%   |
| Mauritius                                | 0.00                                  | -0.94                             | 0.00  | 0.00                                    | 8.13                  | -11.6%  |
| Mexico                                   |                                       | -26.64                            | 21.56                                       | 0.00                                    | 209.58                | -12.7%  |
| North Macedonia, Republic of             |                                       | -0.09                             | 0.00  |   | 3.64                  | -2.4%   |
| Norway                                   |                                       | -1.06                             | 0.00  |   | 80.23                 | -1.3%   |
| Philippines                              |                                       | -38.49                            |   |   | 107.31                | -35.9%  |
| Poland, Rep. of                          | 0.00                                  | -9.18                             | 9.18  | 0.00                                    | 158.08                | -5.8%   |
| Portugal                                 | 0.00                                  | -11.47                            | 0.00  | 0.00                                    | 31.46                 | -36.5%  |
| Slovak Rep.                              |                                       | -1.96                             |   |   | 9.82                  | -19.9%  |
| Switzerland                              | 0.0                                   | -25.3                             | 29.5  | 0.0                                     | 1,064.8               | -2.4%   |
| United Kingdom                           | 0.00                                  | -19.98                            | 28.60                                       | 0.00                                    | 231.29                | -8.6%   |

Source: IMF's website (data reported by country authorities for the IRFCL Template).