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For discussion

F.10 Treatment of Cash Collateral: Outcome of the Public Consultation

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F.10 Treatment of Cash Collateral: Outcome of the Public Consultation

The public consultation reflected mixed views on the proposals in this guidance note (GN). Respondents' views were split (seven supported the proposal while nine did not) on classifying all cash-collateral-related liabilities as deposits. Out of the seven who supported the proposal, five indicated that not only deposit-taking and other financial corporations but also other institutional sectors (e.g., non-financial corporations) should be allowed to record deposit liabilities for cash collateral. Out of the nine who did not support the proposal, five preferred recording cash collaterals in accounts payable/receivable while four preferred recording them in loans. More than half of the respondents did not support the proposal to introduce a new sub-instrument category to cover cash collateral (six supported the proposal while ten did not), indicating that the usefulness of the data would not justify the additional reporting/compilation burden it would entail.

This GN is presented to the Committee for final decision.

1. *Do you agree with Option 3 (classification as deposits of all cash-collateral related liabilities, including for units* whose *liabilities are usually not included in the monetary aggregates) recommended in the Guidance Note? In case you reject Option 3, please express a preference for a classification in line with either Option 1 (other accounts receivable/payable) or Option 2 (loans).*

   - **Views of public consultation respondents were split (seven supported the proposal; nine did not).**

     Most of the seven respondents who supported the proposal mentioned that the features of cash collateral align with those of deposits as laid down in the international standards, constituting non-negotiable claims represented by evidence of deposits. They also pointed out that the proposal is only extending the classification of cash collateral as deposits from deposit-taking corporations to other financial corporations, and that the *Balance of Payments and International Investment Manual, sixth edition* (*BPM6*), and the *Monetary and Financial Statistics Manual and Compilation Guide* already allow this possibility (i.e., for other financial corporations to have deposits on their liability side).The majority did not agree though to setting exceptions for certain institutional units (e.g., non-financial institutions or households) not to classify cash collateral received as deposits. Their view was that the classification should not be determined solely by the type of parties involved in the transactions.

     Respondents who did not support the proposal (nine) argued that it would undermine the definition of deposit-taking institutions and create a conflict between the classification of financial instruments and the classification of domestic sectors because putting up cash collateral to finance purchases of equities or derivatives is generally high-risk while other deposits are associated with low-risk financing of traditional banking. They also pointed out that the classification would be a large deviation from the current definition of deposits, and that users would be confused, particularly if non-financial corporations receive "deposits". Out of nine who did not support Option 3, five preferred Option 1 (recording cash collateral in accounts payable/receivable—some arguing that it aligns better with economic substance as cash collateral is not intended to raise funds) and four preferred Option 2 (recording them in loans—in line with existing conventions for distinguishing loans from deposits and acknowledging that other accounts payable/receivable are mainly linked to timing differences in payments).

2. *In case Option 3 is supported, do you agree to allow for exceptions for liabilities of certain institutional units (e.g., financial auxiliaries, non-financial corporations, households) so that they could be treated as loans or other accounts payable? If yes, in which cases?*

    - **The majority (five out of seven) who supported option 3 did not agree to the approach not to allow some institutional sectors to receive deposits.**

      The majority of those supporting a classification as deposits did not agree to the exceptions that certain institutional units cannot have deposits on the liability side of their balance sheets, indicating that the classification should not be determined solely by the type of parties involved in the transactions.

3. *Do you agree with proposing a new sub-instrument category (e.g., within deposits) to cover cash collateral claims?*

    - **More than half of the respondents (ten out of sixteen) did not support the proposal to introduce a new sub-instrument category.**

      Six respondents supported the proposal indicating that it would help users analyze the data taking into account the different characteristics of cash collaterals and other deposits. Ten respondents did not see sufficient analytical value to justify additional reporting/compilation burden.