Annex - III
to circular DBOD.No.FID.FIC.3/01.02.00/2011-12 dt 01-07-11

(Cf. Para 8.6)

Recommended Accounting Methodology for
Uniform Accounting of Repo / Reverse Repo Transactions

a. The following accounts may be opened, viz. i) Repo Account, ii) Repo Price Adjustment Account, iii) Repo Interest Adjustment Account, iv) Repo Interest Expenditure Account, v) Repo Interest Income Account, vi) Reverse Repo Account, vii) Reverse Repo Price Adjustment Account, and viii) Reverse Repo Interest Adjustment Account.

b. The securities sold / purchased under repo should be accounted for as an outright sale / purchase.

c. The securities should enter and exit the books at the same book value. For operational ease, the weighted average cost method, whereby the investment is carried in the books at their weighted average cost, may be adopted.

Repo

d. In a repo transaction, the securities should be sold in the first leg at market related prices and re-purchased in the second leg at the derived price. The sale and repurchase should be accounted in the Repo Account.

e. The balances in the Repo Account should be netted from the FI's Investment Account for balance sheet purposes.

f. The difference between the market price and the book value in the first leg of the repo should be booked in Repo Price Adjustment Account. Similarly the difference between the derived price and the book value in the second leg of the repo should be booked in the Repo Price Adjustment Account.

Reverse Repo

g. In a reverse repo transaction, the securities should be purchased in the first leg at prevailing market prices and sold in the second leg at the derived price. The purchase and sale should be accounted for in the Reverse Repo Account.

h. The balances in the Reverse Repo Account should be part of the Investment Account for balance sheet purposes and can be reckoned for SLR purposes (only for banks) if the securities acquired under reverse repo transactions are approved securities.

i. The security purchased in a reverse repo will enter the books at the market price (excluding broken period interest). The difference between the derived price and the book value in the second leg of the reverse repo should be booked in the Reverse Repo Price Adjustment Account.

Other aspects relating to Repo / Reverse Repo

j. In case the interest payment date of the security offered under repo falls within the repo period, the coupons received by the buyer of the security should be passed on to the seller on the date of receipt as the cash consideration payable by the seller in the second leg does not include any intervening cash flows.

k. The difference between the amounts booked in the first and second legs in the Repo / Reverse Repo Price Adjustment Account should be transferred to the Repo Interest Expenditure Account or Repo Interest Income Account, as the case may be.

l. The broken period interest accrued in the first and second legs will be booked in Repo Interest Adjustment Account or Reverse Repo Interest Adjustment Account, as the case may be. Consequently the difference between the amounts booked in this account in the first and second legs should be transferred to the Repo Interest Expenditure Account or Repo Interest Income Account, as the case may be.

m. At the end of the accounting period, for outstanding repos, the balances in the Repo / Reverse Repo Price Adjustment Account and Repo / Reverse repo Interest Adjustment Account should be reflected either under item VI - 'Others' under Schedule 11 - 'Other Assets' or under item IV 'Others (including Provisions)' under Schedule 5 - 'Other Liabilities and Provisions' in the Balance Sheet of banks, as the case may be. (The FIs may reflect the balances in the corresponding Heads of accounts in their balance sheet).

n. Since the debit balances in the Repo Price Adjustment Account at the end of the accounting period represent losses not provided for in respect of securities offered in outstanding repo transactions, it will be necessary to make a provision therefor in the Profit & Loss Account.

o. To reflect the accrual of interest in respect of the outstanding repo / reverse repo transactions at the end of the accounting period, appropriate entries should be passed in the Profit and Loss account to reflect Repo Interest Income / Expenditure in the books of the buyer / seller, respectively, and the same should be debited / credited as an income / expenditure accrued but not due. Such entries passed should be reversed on the first working day of the next accounting period.

p. In respect of repos in interest bearing (coupon) instruments, the buyer would accrue interest during the period of repo. In respect of repos in discount instruments like Treasury Bills, the seller would accrue discount during the period of repo based on the original yield at the time of acquisition.

q. At the end of the accounting period the debit balances (excluding balances for repos which are still outstanding) in the Repo Interest Adjustment Account and Reverse Repo Interest Adjustment Account should be transferred to the Repo Interest Expenditure Account and the credit balances (excluding balances for repos which are still outstanding) in the Repo Interest Adjustment Account and Reverse Repo Interest Adjustment Account should be transferred to the Repo Interest Income Account.

r. Similarly, at the end of accounting period, the debit balances (excluding balances for repos which are still outstanding) in the Repo / Reverse Repo Price Adjustment Account should be transferred to the Repo Interest Expenditure Account and the credit balances (excluding balances for repos which are still outstanding) in the Repo / Reverse Repo Price Adjustment Account should be transferred to the Repo Interest Income Account.

s. Illustrative examples are given in Annex IV.
