Annex IV

Guidelines for accounting of Repo/Reverse Repo transactions (paragraph 11)

The Reserve Bank of India (Amendment) Act, 2006 (Act No. 26 of 2006) provides a legal definition of 'repo' and 'reverse repo' (vide sub-sections (c) and (d) of section 45 U of Chapter III D of the Act) as an instrument for borrowing (lending) funds by selling (purchasing) securities with an agreement to repurchase (resell) the securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed (lent). Accordingly, to bring such transactions onto the balance sheet in their true economic sense and enhance transparency, the accounting guidelines have been reviewed and the revised guidelines are given below:

2. Applicability of the accounting guidelines: The revised accounting guidelines will apply to market repo transactions in Government Securities and corporate debt securities. These accounting norms will, however, not apply to repo / reverse repo transactions conducted under the Liquidity Adjustment Facility (LAF) with Reserve Bank.

3. Market participants may undertake repos from any of the three categories of investments, viz., **Held for Trading**, **Available for Sale** and **Held to Maturity**.

4. The economic essence of a repo transaction, viz., borrowing (lending) of funds by selling (purchasing) securities shall be reflected in the books of the repo participants, by accounting the same as collateralised lending and borrowing transaction, with an agreement to repurchase, on the agreed terms. Accordingly, the repo seller, i.e., borrower of funds in the first leg, shall not exclude the securities sold under repo but continue to carry the same in his investment account (illustration given in the Annex IV (a) & IV (b)) reflecting his continued economic interest in the securities during the repo period. On the other hand, the repo buyer, i.e., lender of funds in the first leg, shall not include the securities purchased under repo in his investment account but show it in a separate sub-head (Annex (IV) (a) & (IV) (b)). The securities would, however, be transferred from the repo seller to repo buyer as in the case of normal outright sale/purchase transactions and such movement of securities shall be reflected using the Repo/Reverse Repo Accounts and contra entries. In the case of repo seller, the Repo Account is credited in the first leg for the securities sold (funds received), while the same is reversed when the securities are repurchased in the second leg. Similarly, in the case of repo buyer, the Reverse Repo Account is debited for the amount of securities purchased (funds lent) and the same is reversed in the second leg when the securities are sold back.

5. The first leg of the repo transaction should be contracted at the prevailing market rates. The reversal (second leg) of the transaction shall be such that the difference between the consideration amounts of first and second legs should reflect the repo interest.

6. The accounting principles to be followed while accounting for repo / reverse repo transactions are as under:

(i) **Coupon /Discount**

(a) The repo seller shall continue to accrue the coupon/discount on the securities sold under repo even during the repo period while the repo buyer shall not accrue the same.

(b) 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 of the security on the date of receipt as the cash consideration payable by the seller in the second leg does not include any intervening cash flows.

(ii) **Repo Interest Income / Expenditure**

After the second leg of the repo / reverse repo transaction is over,

(a) the difference between consideration amounts of the first leg and second leg of the repo shall be reckoned as Repo Interest Income / Expenditure in the books of the repo buyer / seller respectively ; and

(b) the balance outstanding in the Repo Interest Income / Expenditure account should be transferred to the Profit and Loss account as an income or an expenditure . As regards repo / reverse repo transactions *outstanding on the balance sheet date*, only the accrued income / expenditure *till the balance sheet date* should be taken to the Profit and Loss account. Any repo income / expenditure for the remaining period should be reckoned for the next accounting period.

(iii) **Marking to Market**

The repo seller shall continue to mark to market the securities sold under repo transactions as per the *investment classification of the security*. To illustrate, in case the securities sold by banks under repo transactions are out of the **Available for Sale** category, then the mark to market valuation for such securities should be done at least once a quarter. For entities which do not follow any investment classification norms, the *valuation for securities sold under repo transactions may be in accordance with the valuation norms followed by them in respect of securities of similar nature.*

7. **Accounting Methodology**

The accounting methodology to be followed along with the illustrations is given in **Annexes IV (a) and IV (b)**. Participants using more stringent accounting principles may continue using the same principles. Further, to obviate the disputes arising out of repo transactions, the participants should enter into bilateral Master Repo Agreement as per the documentation finalized by FIMMDA.

8. Classification of Accounts

Banks shall classify the balances in Repo Account under Schedule 4 under item I (ii) or I (iii) as appropriate. Similarly, the balances in Reverse Repo Account shall be classified under Schedule 7 under item I (ii) a or I (ii) b as appropriate. The balances in Repo interest expenditure Account and Reverse Repo interest income Account shall be classified under Schedule 15 (under item II or III as appropriate) and under Schedule 13 (under item III or IV as appropriate) respectively. The balance sheet classification for other participants shall be governed by the guidelines issued by the respective regulators.

9. Disclosure

The following disclosures should be made by banks in the "Notes on Accounts' to the Balance Sheet:

(in face value terms)
(Rs. In crore)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	Outstanding as on March 31
Securities sold under repo				
i. Government Securities				
ii. Corporate debt securities				
Securities purchased under reverse repo				
i. Government Securities				
ii. Corporate debt securities				

10. Treatment for Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

(i) Government securities:

The regulatory treatment of market repo transactions in Government securities will continue as hitherto, i.e., the funds borrowed under repo will continue to be exempt from CRR/SLR computation and the security acquired under reverse repo shall continue to be eligible for SLR.

(ii) Corporate debt securities:

In respect of repo transactions in corporate debt securities,

(a) The amount borrowed by a bank through repo shall be reckoned as part of its DTL and the same shall attract CRR/SLR

(b) The borrowings of a bank through repo in corporate bonds shall be reckoned as its liabilities for reserve requirement and, to the extent these liabilities are to the banking system, they shall be netted as per clause (d) of the explanation under section 42(1) of the Reserve Bank of India Act, 1934. Such borrowings shall, however, be subject to the prudential limits for inter-bank liabilities

11. **Effective Date**

The revised accounting principles for market repo will be applicable from April 01, 2010. The outstanding repo/reverse repo transactions would however, continue to be accounted as hither to, till maturity.