

**ACCOUNTING GUIDELINES FOR REPO TRANSACTIONS FOR ENTITIES
REGULATED BY THE RESERVE BANK**

- 1. Applicability of the accounting guidelines:** The revised accounting guidelines will apply to repo transactions in government securities and corporate debt securities including the tri-party repo in such securities.
2. Market participants may undertake repos from any of the three categories of investments, viz., Held for Trading, Available for Sale and Held to Maturity.
3. 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 collateralized 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 (please see the illustration given in the [Appendix II-2](#)) 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 (please see the [Appendix II-1](#)). The securities would, however, be transferred from the repo seller to repo buyer in case of repos 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.
4. 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.

5. 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.

6. Accounting Methodology

The accounting methodology to be followed along with the illustrations is given in [Appendix II-1](#) and [II-2](#). Participants using more stringent accounting principles may continue using the same principles.

7. Classification of Accounts

Banks shall classify the balances in Repo A/c under Schedule 4 under item I (ii) or I (iii) as appropriate. Similarly, the balances in Reverse Repo A/c shall be classified under Schedule 7 under item I (ii) a or I (ii) b as appropriate. The balances in Repo interest expenditure A/c and Reverse Repo interest income A/c 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.

8. Disclosure

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

	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				
iii. Any other securities				
Securities purchased under reverse repo				
i. Government securities				
ii. Corporate debt securities				
iii. Any other securities				

Recommended Accounting Methodology for accounting of Repo / Reverse Repo transactions

- i The following accounts may be maintained, viz., i) Repo Account, ii) Reverse Repo Account, iii) Reverse Repo Interest Income Account, iv) Repo Interest Expenditure Account v) Reverse Repo Interest Receivable Account and vi) Repo Interest Payable Account.
- ii In addition to the above, the following 'contra' accounts may also be maintained, viz., i) Securities Sold under Repo Account, (ii) Securities Purchased under Reverse Repo Account, (iii) Securities Receivable under Repo Account and (iv) Securities Deliverable under Reverse Repo Account.

Repo

- i 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 same prices. The consideration amount in the second leg would, however, include the repo interest. The sale and repurchase should be reflected in the Repo Account.
- ii Though the securities are not excluded from the repo seller's investment account and not included in the repo buyer's investment account, the transfer of securities shall be reflected by using the necessary contra entries.

Reverse Repo

- i 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 same prices. The consideration amount in the second leg would, however, include the repo interest. The purchase and sale should be reflected in the Reverse Repo Account.
- ii The balances in the Reverse Repo Account shall not be a part of the Investment Account for balance sheet purposes but can be reckoned for SLR purposes if the securities acquired under reverse repo transactions are approved securities.

Other aspects relating to Repo/Reverse Repo

- i In case the interest payment date of the securities sold 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.
- ii To reflect the accrual of interest in respect of the outstanding 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 expenditure payable/income receivable. Such entries passed should be reversed on the first working day of the next accounting period.
- iii Repo seller continues to accrue coupon/discount as the case may be, even during the repo period while the repo buyer shall not accrue the same.

Illustrative examples are given in [Appendix II-2](#).

Appendix II-2

Illustrative examples for accounting of Repo / Reverse repo transactions

While in the body of the Direction, the term "repo" is used generically to include both repo and reverse repo (which is simply a mirror image of a repo transaction), in this Appendix the accounting guidelines have been set out separately for repo and reverse repo for clarity.

A. Repo/Reverse Repo of dated security

1. Details of Repo in a coupon bearing security:

Security offered under repo	7.17% 2028	
Coupon payment dates	08 January and 08 July	
Market Price of security	₹96.9000	(1)
Date of the repo	26-Mar-2018	
Repo interest rate	6.00%	
Tenor of the repo	8 days	
Reversal date for the repo	03-April-2018	
Broken period interest for the first leg*	$7.17\% \times 78 / 360 \times 100 = ₹1.5535$	(2)
Cash consideration for the first leg	(1) + (2) = ₹ 98.4535	(3)
Repo interest**	$₹ 98.4535 \times 8 / 365 \times 6.00\% = ₹ 0.1295$	(4)
Cash Consideration for the second leg	(3)+(4) = ₹98.4535 + ₹ 0.1295 = ₹98.5830	

* *Using 30/360 day count convention*

** *Using Actual/365 day count convention*

2. Accounting for Repo Seller (Borrower of Funds)

		<u>First leg</u>
	Debit	Credit
Cash	98.4535	
Repo A/c		98.4535
Securities Receivable under Repo A/c (by contra)	98.4535	
Securities Sold under Repo A/c (by contra)		98.4535
		<u>Second Leg</u>
	Debit	Credit
Repo A/c	98.4535	
Repo Interest Expenditure A/c	0.1295	
Cash A/c		98.5830
Securities Sold under Repo A/c (by contra)	98.4535	
Securities Receivable under Repo A/c (by contra)		98.4535

3. Accounting for Repo Buyer (Lender of Funds)

First leg

	Debit	Credit
Reverse Repo A/c	98.4535	
Cash A/c		98.4535
Securities Purchased under Reverse Repo A/c (by contra)	98.4535	
Securities Deliverable under Reverse Repo A/c (by contra)		98.4535

Second Leg

	Debit	Credit
Cash A/c	98.5830	
Reverse Repo A/c		98.4535
Reverse Repo Interest Income A/c		0.1295
Securities Deliverable under Reverse Repo A/c (by contra)	98.4535	
Securities Purchased under Reverse Repo A/c (by contra)		98.4535

4. Ledger entries for adjustment accounts Securities Receivable under Repo A/c

Debit		Credit	
To Securities Sold under Repo A/c (repo 1 st leg)	98.4535	By Securities Sold under Repo A/c (repo 2 nd leg)	98.4535

Securities Sold under Repo A/c

Debit		Credit	
To Securities Receivable under Repo A/c (repo 2 nd leg)	98.4535	By Securities Receivable under Repo A/c (repo 1 st leg)	98.4535

Securities Purchased under Repo A/c

Debit		Credit	
To Securities Deliverable under Reverse Repo A/c (reverse repo 1 st leg)	98.4535	By Securities Deliverable under Reverse Repo A/c (reverse repo 2 nd leg)	98.4535

Securities Deliverable under Repo A/c

Debit		Credit	
To Securities Purchased under Reverse Repo A/c (reverse repo 2 nd leg)	98.4535	By Securities Purchased under Reverse Repo A/c (Reverse Repo 1 st leg)	98.4535

5. If the balance sheet date falls during the tenor of the repo, participants may use the transit accounts, i.e., Repo Interest Payable A/c and Reverse Repo Interest Receivable A/c to record the accrued interest and reverse the same the

following day. The balances in the repo interest receivable and payable shall be taken to the P & L Account with appropriate entries passed in the balance sheet, as below: -

Transaction Leg	1st leg	Balance Sheet Date	2nd leg
Dates	26-Mar-18	31-Mar-18	03-Apr-18

a) Entries in the Books of Repo Seller (borrower of funds) on 31-Mar-18

Account Head	Debit	Credit
Repo Interest Expenditure A/c [Balances under the account to be transferred to P & L]	0.0971 (being the repo interest for 6 days)	
Repo Interest Payable A/c		0.0971

Account Head	Debit	Credit
P & L A/c	0.0971	
Repo Interest Expenditure A/c		0.0971

b) Reversal of entries in the Books of Repo Seller (borrower of funds) on 01-Apr-18

Account Head	Debit	Credit
Repo Interest Payable A/c	0.0971	
Repo Interest Expenditure		0.0971

c) Entries in books of Repo Buyer (Lender of Funds) on 31-Mar-18

Account Head	Debit	Credit
Reverse Repo Interest Receivable A/c	0.0971	
Reverse Repo Interest Income A/c [Balances under the account to be transferred to P & L]		0.0971 (Being the repo interest for 6 days)

Account Head	Debit	Credit
Reverse Repo Interest Income A/c	0.0971	
P & L A/c		0.0971

d) Reversal of entries in the Books of Repo Buyer (Lender of Funds) on 01-Apr-18

Account Head	Debit	Credit
Reverse Repo Interest Income A/c	0.0971	
Reverse Repo Interest Receivable A/c		0.0971

B. Repo/ Reverse Repo of Treasury Bill
1. Details of Repo on a Treasury Bill

Security offered under Repo	GOI 91 day Treasury Bill maturing on 21 June 2018	
Price of the security offered under Repo	₹ 98.5785	(1)
Date of the Repo	26-Mar-2018	
Repo interest rate	6.00%	
Tenor of the repo	8 days	
Total cash consideration for the first leg	₹ 98.5785	(2)
Repo interest *	₹ 98.5785 X 6% X 8 /365 = ₹0.1296	(3)
Cash consideration for the second leg	(2)+(3) = ₹ 98.5785 + ₹0.1296 = ₹98.7081	

* **Using Actual/365 day count convention**

2. Accounting for Repo Seller (Borrower of Funds)

First leg

	Debit	Credit
Cash	98.5785	
Repo A/c		98.5785
Securities Receivable under Repo A/c (by contra)	98.5785	
Securities Sold under Repo A/c (by contra)		98.5785

Second Leg

	Debit	Credit
Repo A/c	98.5785	
Repo Interest Expenditure A/c	0.1296	
Cash A/c		98.7081
Securities Sold under Repo A/c (by contra)	98.5785	
Securities Receivable under Repo A/c (by contra)		98.5785

3. Accounting for Repo Buyer (Lender of Funds)

First leg

	Debit	Credit
Reverse Repo A/c	98.5785	
Cash A/c		98.5785
Securities Purchased under Reverse Repo A/c (by contra)	98.5785	
Securities Deliverable under Reverse Repo A/c (by contra)		98.5785

Second Leg

	Debit	Credit
Cash A/c	98.7081	
Reverse Repo A/c		98.5785
Reverse Repo Interest Income A/c		0.1296
Securities Deliverable under Reverse Repo A/c (by contra)	98.5785	
Securities Purchased under Reverse Repo A/c (by contra)		98.5785

4. Ledger entries for the adjustment accounts Securities Receivable under Repo A/c

Debit		Credit	
To Securities Sold under Repo A/c (repo 1 st leg)	98.5785	By Securities Sold under Repo A/c (repo 2 nd leg)	98.5785

Securities Sold under Repo A/c

Debit		Credit	
To Securities Receivable under Repo A/c (repo 2 nd leg)	98.5785	By Securities Receivable under Repo A/c (repo 1 st leg)	98.5785

Securities Purchased under Repo A/c

Debit		Credit	
To Securities Deliverable under Reverse Repo A/c (reverse repo 1 st leg)	98.5785	By Securities Deliverable under Reverse Repo A/c (reverse repo 2 nd leg)	98.5785

Securities Deliverable under Repo A/c

Debit		Credit	
To Securities Purchased under Reverse Repo A/c (reverse repo 2 nd leg)	98.5785	By Securities Purchased under Reverse Repo A/c (reverse repo 1 st leg)	98.5785

5. If the balance sheet date falls during the tenor of the repo, participants may use the transit accounts, i.e. Repo Interest Payable A/c and Reverse Repo Interest Receivable A/c to record the accrued interest and reverse the same the following day. The balances in the repo interest receivable and payable shall be taken to the P & L Account with appropriate entries passed in the balance sheet, as below:-

Transaction Leg	1st leg	Balance Sheet Date	2nd leg
Dates	26-Mar-18	31-Mar-18	03-Apr-18

a) Entries in the Books of Repo Seller (borrower of funds) on 31-Mar-18

Account Head	Debit	Credit
Repo Interest Expenditure A/c [Balances under the account to be transferred to P & L]	0.09723 (being the repo interest for 6 days)	
Repo Interest payable A/c		0.09723

Account Head	Debit	Credit
P & L A/c	0.09723	
Repo Interest Expenditure A/c		0.09723

b) Reversal of entries in the Books of Repo Seller (borrower of funds) on 01-Apr-18

Account Head	Debit	Credit
Repo Interest Payable A/c	0.09723	
Repo Interest Expenditure		0.09723

c) Entries in books of Repo Buyer (Lender of Funds) on 31-Mar-18

Account Head	Debit	Credit
Reverse Repo Interest Receivable A/c	0.09723	
Reverse Repo Interest Income A/c [Balances under the account to be transferred to P & L]		0.09723 (Being the repo interest for 6 days)

Account Head	Debit	Credit
Reverse Repo Interest Income A/c	0.09723	
P & L A/c		0.09723

d) Reversal of entries in the Books of Repo Buyer (Lender of Funds) on 01-Apr-18

Account Head	Debit	Credit
Reverse Repo Interest Income A/c	0.09723	
Reverse Repo Interest Receivable A/c		0.09723