Guidelines for uniform accounting for Repo / Reverse repo transactions

March 24, 2003

IDMC. 3810 /11.08.10 / 2002-03

To
All RBI regulated entities
(Commercial Banks, Co-operative Banks, Primary Dealers, Financial Institutions, RRBs and NBFCs)

Dear Sir,

Guidelines for uniform accounting for Repo / Reverse repo transactions

On a review of the accounting practices followed by all RBI regulated entities for accounting repo / reverse repo transactions, it emerged that there were divergent practices prevailing among them. In order to ensure uniform accounting treatment in this regard and to impart an element of transparency, it has been decided to lay down uniform accounting principles, in consultation with Fixed Income Money Markets and Derivatives Association of India (FIMMDA), for repo/reverse repo transactions undertaken by all the regulated entities. However, for the present, these norms would not apply to repo / reverse repo transactions under the Liquidity Adjustment Facility (LAF) with RBI.

2. The uniform accounting principles will be applicable from the financial year 2003-04. On implementation, 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 legal character of repo under the current law , viz. as outright purchase and outright sale transactions will be kept intact by ensuring that the securities sold under repo (the entity selling referred to as "seller") are excluded from the Investment Account of the seller of securities and the securities bought under reverse repo (the entity buying referred to as "buyer") are included in the Investment Account of the buyer of securities. Further, the buyer can reckon the approved securities acquired under reverse repo transaction for the purpose of Statutory Liquidity Ration (SLR) during the period of the repo.

4. At present repo transactions are permitted in Central Government securities including Treasury Bills and dated State Government securities. Since the buyer of the securities will not hold it till maturity, the securities purchased under reverse repo by banks should not be classified under **Held to Maturity** category. The first leg of the repo should be contracted at prevailing market rates. Further, the accrued interest received / paid in a repo / reverse repo transaction and the clean price (i.e. total cash consideration less accrued interest)should be accounted for separately and distinctly .

5. The other accounting principles to be followed while accounting for repos / reverse repos will be as under:

(i) Coupon
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. While the buyer will book the coupon during the period of the repo , the seller will not accrue the coupon during the period of the repo. In the case of

discounted instruments like Treasury Bills, since there is no coupon, the seller will continue to accrue the discount at the original discount rate during the period of the repo. The buyer will not therefore accrue the discount during the period of the repo.

(ii) Repo Interest Income / Expenditure

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

(a) the difference in the clean price of the security between the first leg and the second leg should be reckoned as Repo Interest Income / Expenditure in the books of the buyer / seller respectively ;

(b) the difference between the accrued interest paid between the two legs of the transaction should be shown as Repo Interest Income/ Expenditure account, as the case may be; and

(c) 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 subsequent period in respect of the outstanding transactions should be reckoned for the next accounting period .

(iii) Marking to Market

The buyer will mark to market the securities acquired under reverse repo transactions as per the *investment classification of the security* . To illustrate, for banks , in case the securities acquired under reverse repo transactions have been classified under **Available for Sale** category, then the mark to market valuation for such securities should be done at least once a quarter. For entities who do not follow any investment classification norms, the *valuation for securities acquired under reverse repo transactions may be in accordance with the valuation norms followed by them in respect of securities of similar nature.*

In respect of the repo transactions outstanding as on the balance sheet date

(a) the buyer will mark to market the securities on the balance sheet date and will account for the same as laid down in the extant valuation guidelines issued by the respective regulatory departments of RBI.

(b) the seller will provide for the price difference in the Profit & Loss account and show this difference under “Other Assets” in the balance sheet if the sale price of the security offered under repo is lower than the book value.

(c) the seller will ignore the price difference for the purpose of Profit & Loss account but show the difference under “Other Liabilities” in the balance sheet if the sale price of the security offered under repo is higher than the book value; and

(d) similarly the accrued interest paid / received in the repo / reverse repo transactions outstanding on balance sheet dates should be shown as "Other Assets" or "Other Liabilities" in the balance sheet.

(iv) Book value on re-purchase

The seller shall debit the repo account with the original book value (as existing in the books on the date of the first leg) on buying back the securities in the second leg.

(v) Disclosure
The following disclosures should be made by banks in the "Notes on Accounts' to the Balance Sheet.

(Rs. In crore)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	As on March 31
Securities sold under repos				
Securities purchased under reverse repos				

(vi)Accounting methodology
The accounting methodology to be followed along with illustrations are given in the **Annexes I and II**. While market participants , having different accounting systems, may use accounting heads different from those used in the illustration, there should not be any deviation from the accounting principles enunciated above. Further, to obviate disputes arising out of repo transactions , the participants may consider entering into bilateral Master Repo Agreement as per the documentation finalized by FIMMDA .

Yours faithfully,
sd/-
(H R Khan)
Chief General Manager
Encl : As above

ANNEX-I

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 bank'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 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 the , *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 , as the case may be .

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 II

Annex-II

Illustrative examples for uniform accounting of Repo / Reverse repo transactions

A. Repo/ Reverse Repo of Coupon bearing security

1. Details of Repo in a coupon bearing security :

Security offered under Repo	11.43% 2015	
Coupon payment dates	7 August and 7 February	
Market Price of the security offered under Repo (i.e. price of the security in the first leg)	Rs.113.00	**(1)**
Date of the Repo	19 January, 2003	
Repo interest rate	7.75%	
Tenor of the repo	3 days	
Broken period interest for the first leg*	11.43%x162/360x100=5.1435	**(2)**
Cash consideration for the first leg	(1) + (2) = 118.1435	**(3)**
Repo interest**	118.1435x3/365x7.75%=0.0753	**(4)**
Broken period interest for the second leg	11.43% x 165/360x100=5.2388	**(5)**
Price for the second leg	(3)+(4)-(5) = 118.1435 + 0.0753 - 5.2388 = 112.98	**(6)**
Cash consideration for the second leg	(5)+(6) = 112.98 + 5.2388 = 118.2188	**(7)**

***** Computation of days based on 30/360 day count convention

** Computation of days based on Actual/365 day count convention applicable to money market instruments

2. **Accounting for seller of the security**

We assume that the security was held by the seller at the book value (BV) of Rs.120.0000

First leg Accounting

	Debit	**Credit**
Cash Repo Account	118.1435	 120.0000 (Book value)
Repo Price Adjustment account	7.0000 (Difference between BV & repo price)	
Repo Interest Adjustment account		5.1435

Second Leg Accounting

	Debit	**Credit**
Repo Account Repo Price Adjustment account	120.0000	 7.02 (the difference between the BV and 2nd leg price)
Repo Interest Adjustment account Cash account	5.2388	 118.2188

The balances in respect of the Repo Price Adjustment Account and Repo Interest Adjustment Account at the end of the second leg of repo transaction are transferred to Repo Interest Expenditure Account. In order to analyse the balances in these accounts, the ledger entries are shown below :

Repo Price Adjustment account

Debit		**Credit**	
Difference in price for the 1st leg	7.00	Difference in price for the 2nd leg	7.02
Balance carried forward to Repo Interest Expenditure account	0.02		
Total	7.02	Total	7.02

Repo Interest Adjustment account

Debit		**Credit**	
Broken period interest for the 2nd leg	5.2388	Broken period interest for the 1st leg	5.1435
		Balance carried forward to Repo Interest Expenditure account	0.0953
Total	5.2388	Total	5.2388

Repo Interest Expenditure Account

Debit		**Credit**	
Balance from Repo Interest Adjustment account	0.0953	Balance from Repo Price Adjustment account	0.0200
		Balance carried forward to P & L a/c.	0.0753
Total	0.0953	Total	0.0953

3. Accounting for buyer of the security

When the security is bought, it will bring its book value with it. Hence market value is the book value of the security.

First leg Accounting:

	Debit	Credit
Reverse Repo Account	113.0000	
Reverse Repo Interest Adjustment account	5.1435	
Cash account		118.1435

Second Leg Accounting

	Debit	Credit
Cash account	118.2188	
Reverse Repo Price Adjustment account (Difference between the 1st and 2nd leg prices)	0.0200	
Reverse Repo account		113.0000
Reverse Repo Interest Adjustment account		5.2388

The balances in respect of the Reverse Repo Interest Adjustment Account and Reverse Repo Price adjustment account at the end of the second leg of reverse repo in these accounts are transferred to Repo Interest Income Account. In order to analyse the balances in these two accounts, the ledger entries are shown below:

Reverse Repo Price Adjustment Account

Debit		Credit	
Difference in price of 1st & 2nd leg	0.0200	Balance to Repo Interest Income a/c.	0.0200
Total	0.0200	Total	0.0200

Reverse Repo Interest Adjustment Account

Debit		Credit	
Broken period interest for the 1st leg	5.1435	Broken period interest for the 2nd leg	5.2388
Balance carried forward to Repo Interest Income Account	0.0953		
Total	5.2388	Total	5.2388

Reverse Repo Interest Income Account

Debit		Credit	
Difference between the 1st & 2nd leg prices	0.0200	Balance from Reverse Repo Interest Adjustment account	0.0953
Balance carried forward to P & L account	0.0753		
Total	0.0953	Total	0.0953

4. Additional accounting entries to be passed on a Repo / Reverse Repo transaction on a coupon bearing security, when the accounting period is ending on an intervening day.

Transaction Leg →	1st leg	End of accounting period	2nd leg
Dates →	**19 Jan 03**	**21 Jan 03***	**22 Jan 03**

The difference in the clean price of the security between the first leg and the second leg should be apportioned upto the Balance Sheet date and should be shown as Repo Interest Income / Expenditure in the books of the seller / buyer respectively and should be debited / credited as an income / expenditure accrued but not due. The balances under Income / expenditure accrued but not due should be taken to the balance sheet

The coupon accrued by the buyer should also be credited to the Repo Interest Income account.. *No entries need to be passed on " Repo / Reverse Repo price adjustment account and Repo / Reverse repo interest adjustment account"* . The illustrative accounting entries are shown below:

a) <u>Entries in Seller's books on January 21, 2003</u>

Account Head	Debit	Credit
Repo Interest Income account [Balances under the account to be transferred to P & L]		0.0133 (Notional credit balance 0.0133 in the Repo Price Adjustment Account by way of apportionment of price difference for two days i.e. upto the balance sheet day)
Repo interest Income accrued but not due	0.0133	

*21 January, 2003 is assumed to be the balance sheet date

b) <u>Entries in Seller's books on January 21, 2003</u>

Account Head	Debit	Credit
Repo interest income	0.0133	
P & L a/c		0.0133

c) <u>Entries in Buyer's Books on January 21, 2003</u>

Account Head	Debit	Credit
Repo interest income accrued but not due	0.0502	
Repo Interest Income account [Balances under the account to be transferred to P & L]		0.0502 (Interest accrued for 3 days of Rs. 0.0635* - Apportionment of the difference in the clean price of Rs. 0.0133)

*For the sake of simplicity the interest accrual has been considered for 2 days.

d) <u>Entries in Buyer's Books on January 21, 2003</u>

Account Head	Debit	Credit
Repo interest income account	0.0502	
P& L a/c		0.0502

The difference between the repo interest accrued by the seller and the buyer is on account of the accrued interest forgone by the seller on the security offered for repo.

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 28 February, 2003	
Price of the security offered under Repo	Rs.96.0000	**(1)**
Date of the Repo	19 January, 2003	
Repo interest rate	7.75%	
Tenor of the repo	3 days	
Total cash consideration for the first leg	96.0000	**(2)**
Repo interest	0.0612	**(3)**
Price for the second leg	(2)+(3) = 96.0000 + 0.0612 = 96.0612	
Cash consideration for the 2nd leg	96.0612	

2. Accounting for seller of the security
We assume that the security was held by the seller at the book value (BV) of Rs.95.0000

First leg Accounting:

	Debit	**Credit**
Cash Repo Account	96.0000	 95.0000 (Book value)
Repo Price adjustment account		1.0000 (Difference between BV & repo price)

Second Leg Accounting

Repo Account Repo Price adjustment account	95.0000 1.0612 (the difference between the BV and 2nd leg price)	
Cash account		96.0612

The balances in respect of the Repo Price Adjustment Account at the end of the second leg of repo transaction are transferred to Repo Interest Expenditure Account. In order to analyse the balances in this account, the ledger entries are shown:

Repo Price Adjustment account

Debit		**Credit**	
Difference in price for the 2nd leg	1.0612	Difference in price for the 1st leg	1.0000
		Balance carried forward to Repo Interest Expenditure account	0.0612
Total	1.0612	Total	1.0612

Repo Interest Expenditure Account

Debit		**Credit**	
Balance from Repo Price Adjustment account	0.0612	Balance carried forward to P & L a/c.	0.0612

Total	0.0612	Total	0.0612

The Seller will continue to accrue the discount at the original discount rate during the period of the repo.

3. <u>Accounting for buyer of the security</u>

When the security is bought, it will bring its book value with it. Hence market value is the book value of the security.

<u>First leg Accounting:</u>

	Debit	Credit
Reverse Repo Account	96.0000	
Cash account		96.0000

<u>Second Leg Accounting</u>

	Debit	Credit
Cash account	96.0612	
Repo Interest Income account (Difference between the 1st and 2nd leg prices)		0.0612
Reverse Repo account		96.0000

The Buyer will not accrue for the discount during the period of the repo.

4. Additional accounting entries to be passed on a Repo / Reverse Repo transaction on a Treasury Bill, when the accounting period is ending on an intervening day.

Transaction Leg →	**1st leg**	**B/S date**	**2nd leg**
Date →	**19 Jan.03**	**21 Jan.03***	**22 Jan.03**

*21 January, 2003 is assumed to be the balance sheet date

a. <u>Entries in Seller's books on January 21, 2003</u>

Account Head	**Debit**	**Credit**
Repo Interest Expenditure account (after apportionment of repo interest for two days) [Balances under the account to be transferred to P & L]	0.0408	
Repo interest expenditure accrued but not due		0.0408

b. <u>Entries in Seller's books on January 21, 2003</u>

Account Head	**Debit**	**Credit**
Repo interest expenditure account		0.0408
P & L a/c	0.0408	

c. <u>Entries in Buyer's Books on January 21, 2003</u>

Account Head	Debit	Credit
Repo interest income accrued but not due	0.0408	
Repo Interest Income account [Balances under the account to be transferred to P & L]		0.0408

d. Entries in Buyer's Books on January 21, 2003

Account Head	Debit	Credit
Repo interest income account	0.0408	
P & L a/c		0.0408