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RESERVE BANK OF INDIA

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RBI seeks Comments on Draft Guidelines on Uniform Accounting for Repo/Reverse Repo Transactions

The Reserve Bank of India has today placed on its website "Draft Guidelines for Accounting for Repo/Reverse Repo Transactions" for comments/views**.** Comments/views on the draft guidelines may, by December 15, 2008, be sent to the Chief General Manager, Internal Debt Management Department, Reserve Bank of India, Mumbai 400001 or can be emailed.

The proposed draft guidelines seek to revise the guidelines issued in March 2003 which treated 'repo' as a combination of two independent sale/purchase transactions as per the legal provisions prevailing then. The Reserve Bank of India (Amendment) Act 2006 subsequently defined 'repo' as "an instrument for borrowing funds by selling securities with an agreement to repurchase the securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed". The accounting norms now propose to capture the economic essence of 'repo' as a collateralised lending/ borrowing transaction that is structured as a legal sale / purchase of securities as recognised by the RBI (Amendment) Act, 2006. The amendment in the accounting norms would bring such transactions on to the balance sheet of the repo participants in its true economic sense, thus enhancing transparency.

The salient features of the revised draft guidelines are:

- The securities sold under repo would continue to be reflected in the investment account of the repo seller. Accordingly, the repo buyer would not reflect the securities acquired under repo in his investment account. The actual movement of securities between repo buyer and repo seller would, however, be reflected through contra entries in the balance sheet.
- The securities acquired under repo would continue to be reckoned as liquid assets for the purpose of Section 24 of BR Act, 1949 in the books of the repo buyer. Accordingly, the securities sold under repo would not be accorded the benefit of Statutory Liquidity Ratio (SLR) for the repo seller, even though the seller's investment account would continue to show the securities sold under repo.
- The liabilities on account of repo borrowing would be included in the net demand and time liabilities (NDTL) calculation for maintenance of cash reserve ratio (CRR). However, inter-bank repo transactions would continue to be netted, as hitherto.
- The movement of securities should also be accounted for in the books of the counterparties by showing it as contra entries for the sake of greater transparency.

The Reserve Bank of India will finalise and issue the guidelines after examining the views / feedback received.

Alpana Killawala
Chief General Manager

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Guidelines for accounting for Repo / Reverse repo transactions

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

Dear Sir,

Guidelines for accounting for Repo / Reverse repo transactions

Please refer to our Circular IDMC.3810/11.08.10/2002-03 dated March 24, 2003 setting out uniform guidelines for accounting of repo/reverse repo transactions. These guidelines captured the character of repo/reverse repo transaction as outright sale and outright purchase as per the legal position prevailing then. 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 to the balance sheet in their true economic sense and enhance transparency, the accounting guidelines have been reviewed and the revised guidelines are set out below:

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 repo participants, by accounting the same as collateralized lending and borrowing transactions, 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 as a contra item (please see the illustration given in the Annex) 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 (see the Annex). 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.

4. The first leg of the repo transaction should be contracted at the prevailing market rates. The price for the second leg shall be so derived that the difference between the prices of first and second legs should reflect the repo interest.

5. The accounting principles to be followed while accounting for repos / reverse repos 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, for banks, in case the securities sold by them 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**. 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	Outstanding as on March 31
Securities sold under repo				
Securities purchased under reverse repo				

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

The liabilities on account of repo borrowing should be included in the Net Demand and Time Liabilities (NDTL) for calculation of the CRR to be maintained. However, repo borrowing from banks will be excluded on par with interbank borrowing, as hitherto. Considering the character of 'repo' as a sale/purchase of securities in terms of the RBI (Amendment) Act 2006, the securities acquired under a reverse repo transaction shall be reckoned for SLR, if they are approved securities for the purpose. As such, the liabilities on account of repo borrowing may be excluded for calculation of the Demand and Time Liabilities (DTL) for the purpose of SLR.

8. Accounting Methodology

The accounting methodology to be followed along with the illustrations are given in **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 the disputes arising out of repo transactions, the participants may consider entering into bilateral Master Repo Agreement as per the documentation finalized by Fixed Income Money Market and Derivatives Association of India (FIMMDA).

9. Effective Date

These accounting principles will be applicable from the financial year 2009-10.

10. Exclusion

For the present, these norms would not apply to repo / reverse repo transactions conducted under the Liquidity Adjustment Facility (LAF) with RBI.

ANNEX - I

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) Repo Interest Income Account, iv) Repo Interest Expenditure Account v) 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

iii 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 prices. The sale and repurchase should be reflected in the Repo Account.

iv 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

v 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 prices. The purchase and sale should be reflected in the Reverse Repo Account.

vi 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

vii 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.

viii 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 income / expenditure payable/receivable. Such entries passed should be reversed on the first working day of the next accounting period.

ix 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.

x Illustrative examples are given in ***Annex II***

ANNEX - II

Illustrative examples for accounting of Repo / Reverse repo transactions (Encl. to RBI Circular on uniform guidelines for accounting of repo/reverse repo transactions)

While in the body of the circular, 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 Annex 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	8.07%2017	
Coupon payment dates	15 January and 15 July	
Market Price of security	Rs.101.57	**(1)**
Date of the Repo	28-Mar-2008	
Repo interest rate	9.00%	
Tenor of the repo Reversal date for the repo	5 days 02-Apr-2008	
Broken period interest for the first leg*	8.07% x 73 / 360 x 100 = 1.6364	**(2)**
Cash consideration for the first leg	(1) + (2) = 103.2064	**(3)**
Repo interest**	103.2064x5/365x9.00%= 0.1272	**(4)**
Price for the second leg	(3)+(4) = 103.2064 + 0.1272 = 103.3336	

**** Using 30/360 day count convention***
***** Using Actual/365 day count convention***

2. Accounting for Repo Seller (Borrower of Funds)

First leg

	Debit	**Credit**
Cash	103.2064	
Repo A/c		103.2064
Securities Receivable under Repo A/c (by contra)	103.2064	
Securities sold under Repo A/c (by contra)		103.2064

Second Leg

	Debit	**Credit**
Repo A/c	103.2064	
Repo interest expenditure A/c	0.1272	
Cash A/c		103.3336
Securities sold under Repo A/c (by contra)	103.2064	
Securities Receivable under Repo A/c (by contra)		103.2064

3. Accounting for Repo Buyer (Lender of Funds)

First leg

	Debit	Credit
Reverse Repo A/c	103.2064	
Cash A/c		103.2064
Securities Purchased under Reverse Repo A/c (by contra)	103.2064	
Securities Deliverable under Reverse Repo A/c (by contra)		103.2064

Second Leg

	Debit	Credit
Cash A/c	103.3336	
Reverse Repo A/c		103.2064
Repo Interest income A/c		0.1272
Securities Deliverable under Reverse Repo A/c (by contra)	103.2064	
Securities Purchased under Reverse Repo A/c (by contra)		103.2064

4. Journal entries for the adjustment accounts

Securities Receivable under Repo A/c

Debit		Credit	
Securities sold under Repo	103.2064	Securities sold under repo	103.2064

Securities Sold under Repo A/c

Debit		Credit	
Securities Receivable under Repo	103.2064	Securities Receivable under repo	103.2064

Securities Deliverable under Repo A/c

Debit		Credit	
Securities purchased under Repo	103.2064	Securities purchased under repo	103.2064

Securities Purchased under Repo A/c

Debit		Credit	
Securities Deliverable under Repo	103.2064	Securities Deliverable under repo	103.2064

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 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	28-Mar-08	31-Mar-08	02-Apr-08

a) Entries in the Books of Repo Seller (borrower of funds) on 31-Mar-08

Account Head	Debit	Credit
Repo Interest Expenditure A/c [Balances under the account to be transferred to P & L]	0.1018 (being the repo interest for 4 days)	
Repo Interest payable A/c		0.1018

Account Head	Debit	Credit
P & L A/c	0.1018	
Repo Interest Expenditure A/c		0.1018

b) Reversal of entries in the Books of Repo Seller (borrower of funds) on 01-Apr-08

Account Head	Debit	Credit
Repo Interest payable A/c	0.1018	
Repo Interest Expenditure		0.1018

c) Entries in books of Repo Buyer (Lender of Funds)on 31-Mar-08

Account Head	Debit	Credit
Repo interest Receivable A/c	0.1018	
Repo Interest Income A/c [Balances under the account to be transferred to P & L]		0.1018 (Being the repo interest for 4 days)

Account Head	Debit	Credit
Repo Interest Income A/c	0.1018	
P & L A/c		0.1018

d) Reversal of entries in the Books of Repo Buyer (Lender of Funds) on 01-Apr-08

Account Head	Debit	Credit
Repo Interest Income A/c	0.1018	
Repo interest Receivable A/c		0.1018

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 11 April 2008	
Price of the security offered under Repo	Rs.99.7985	**(1)**
Date of the Repo	28-Mar-2008	
Repo interest rate	9%	
Tenor of the repo	5 days	
Total cash consideration for the first leg	99.7985	**(2)**
Repo interest	99.7985 X 9%X 5 /365 = 0.1230	**(3)**
Price for the second leg	(2)+(3) = 99.7985 + 0.1230 = 99.9215	
Cash consideration for the 2nd leg	99.9215	

2. Accounting for Repo Seller (Borrower of Funds)
First leg

	Debit	**Credit**
Cash	99.7985	
Repo A/c		99.7985
Securities Receivable under Repo A/c (by contra)	99.7985	
Securities sold under Repo A/c (by contra)		99.7985

Second Leg

	Debit	**Credit**
Repo A/c	99.7985	
Repo interest expenditure A/c	0.1230	
Cash A/c		99.9215
Securities sold under Repo A/c (by contra)	99.7985	
Securities Receivable under Repo A/c (by contra)		99.7985

3. Accounting for Repo Buyer (Lender of Funds)
First leg

	Debit	**Credit**
Reverse Repo A/c	99.7985	
Cash A/c		99.7985
Securities Purchased under Reverse Repo A/c (by contra)	99.7985	
Securities Deliverable under Reverse Repo A/c (by contra)		99.7985

Second Leg

	Debit	Credit
Cash A/c	99.9215	
Reverse Repo A/c		99.7985
Repo Interest income A/c		0.1230
Securities Deliverable under Repo A/c (by contra)	99.7985	
Securities Purchased under Repo A/c (by contra)		99.7985

4. 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 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	**28-Mar-08**	**31-Mar-08**	**02-Apr-08**

a) Entries in the Books of Repo Seller (borrower of funds) on 31-Mar-08

Account Head	**Debit**	**Credit**
Repo Interest Expenditure A/c [Balances under the account to be transferred to P & L]	0.0984 (being the repo interest for 4 days)	
Repo Interest payable A/c		0.0984

Account Head	**Debit**	**Credit**
P & L A/c	0.0984	
Repo Interest Expenditure A/c		0.0984

b) Reversal of entries in the Books of Repo Seller (borrower of funds) on 01-Apr-08

Account Head	**Debit**	**Credit**
Repo Interest payable A/c	0.0984	
Repo Interest Expenditure		0.0984

c) Entries in books of Repo Buyer (Lender of Funds)on 31-Mar-08

Account Head	Debit	Credit
Repo interest Receivable A/c	0.0984	
Repo Interest Income A/c [Balances under the account to be transferred to P & L]		0.0984 (Being the repo interest for 4 days)

Account Head	Debit	Credit
Repo Interest Income A/c	0.0984	
P & L A/c		0.0984

d) Reversal of entries in the Books of Repo Buyer (Lender of Funds) on 01-Apr-08

Account Head	Debit	Credit
Repo Interest Income A/c	0.0984	
Repo interest Receivable A/c		0.0984