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# BANGLADESH BANK

HEAD OFFICE  
POST BOX NO. 325  
DHAKA.

DEPARTMENT OF OFF-SITE SUPERVISION

**DOS Circular No.- 06**

**Date:** 15/07/2010

**Chief Executive  
All Scheduled Banks in Bangladesh.**

Dear Sir,

## **Uniform Accounting Procedure for REPO Transactions**

Banks in Bangladesh are free to engage in repo transactions with Bangladesh Bank and with other banks and financial institutions which maintain a current account with Bangladesh Bank. Although there are several circulars and circular letters on repo operational procedure, it has been observed that some confusion still remain regarding the accounting treatment of repo transactions. Considering the inherent risk involved in repo operation and its implications in the financial statements, Bangladesh Bank (BB) has decided to introduce a uniform accounting procedure for repo operation as a prudential measure aimed at better risk management. From now on, banks are advised to comply with the following guidelines relating to repo operation in government securities:

### **1. Requirement for a Master Agreement:**

A separate Master Agreement shall be executed with each counterparty (banks and financial institutions), with whom the bank is willing to conduct repo operation. The Master Agreement shall be prepared considering the credit worthiness of the counterparty, transfer of legal title of the security, timing of payments, default procedures and the consequential rights and obligations of the counterparties, etc. The terms and conditions shall be approved by the Board of Directors/CEO (in case of foreign banks) of the bank and shall be reviewed as and when required.

Banks shall conduct inter-bank repo under such Master Agreements from 1 January 2011.

### **2. Requirement for disclosure:**

According to the General instructions for preparation of financial statements contained in 4(Ka) of Article 38 (1st schedule) of "ব্যাংক কোম্পানী আইন, ১৯৯১", banks are required to disclose the amount of securities put under repo separately. To disclose their continuous interest in the securities under repo and the obligation against the securities acquired under repo (reverse repo), banks are advised to provide details of their outstanding repo and reverse repo transactions in the financial statements in the format attached in Annexure-1.

**P.T.O.**

**3. Eligibility of securities to be put under repo:**

1. Securities having 3 (three) days to coupon payment or 3 (three) days to maturity shall not be put under any category of repo.

2. Securities acquired under reverse repo shall not be put under repo or lien for any purpose or sold by the buyer unless the counter party defaults.

**4. Eligibility of securities under repo for maintaining SLR:**

1. As the security under repo will be excluded from the investment portfolio of the seller (in 1st leg), it will not be eligible for SLR purpose for the seller.

2. The security acquired under reverse repo will be eligible for SLR purpose initially at its clean price (in case of coupon bearing security) or at its market value (in case of non-coupon bearing security) by the buyer. If the revaluation date falls within the repo period, then the new market value will be eligible for SLR purpose.

**5. Accounting procedure:**

1. The security shall exit (in the 1st leg of repo) at the book value and enter (in the 2nd leg of repo) into the seller's book at the market value determined in the 1st leg.

2. The cash consideration for the 1<sup>st</sup> leg of repo will be the market value of the security (plus coupon interest accrued up to the previous date of the repo agreement in case of coupon bearing security).

3. The cash consideration for the 2<sup>nd</sup> leg of repo will be the 1<sup>st</sup> leg cash consideration plus repo interest.

4. In case of repo of both coupon and non-coupon bearing (Treasury bill) security, the seller shall adjust the Revaluation Reserve Account for HFT securities and respective reserve account for HTM securities and the weekly revaluation (if the revaluation date falls within the repo period) of the same security shall be stopped.

5. In case of repo of a coupon bearing security, the seller shall stop the accrual of the coupon interest and as there is no possibility of coupon payment during the period under repo; the buyer shall also not accrue the coupon interest.

6. The buyer shall revalue the coupon bearing security acquired under repo in case the revaluation date falls within the repo period.

7. The buyer shall not revalue the non-coupon bearing security acquired under repo as the short term securities have lower susceptibility to interest rate movement.

8. The following accounts shall be opened: **a) in the seller's book-** i) Coupon Interest Expenditure Account and ii) Repo Interest Expenditure Account **b) in the buyer's book-** i) Coupon Interest Adjustment Account, ii) Repo Interest Income Account.

9. At the end of the accounting period, debit balances in the Coupon Interest Expenditure Account and Repo Interest Expenditure Account and credit balance in the Repo Interest Income Account shall be taken into profit & loss Account.

**P.T.O.**

10. To reflect the accrual of interest in respect of the outstanding repo/reverse repo transactions at the end of the accounting period, appropriate entries shall be passed in the profit and loss account of the seller's and buyer's books. Such entries shall be reversed on the first working day of the next accounting period.

11. The purchase of treasury securities under reverse repo shall have to be reported in DB-5d statement.

12. A comprehensive accounting procedure with necessary accounting entries and explanation is given in **Annexure-2**.

All other instructions contained in the DOS circular letter No.-05/2008 and DOS circular letter No.-05/2009 shall remain valid except the changes made by this circular.

This will have an effect from 1 September 2010. Repo agreements made before the effective date of this circular shall continue till the maturity.

Please acknowledge receipt.

Yours sincerely,

Sd:-

(Sultan Ahmed)

General Manager

Phone: 7120376

**a.(i) Disclosure regarding outstanding Repo as on 31 December:**

Sl. no.	Counter party name	Agreement Date	Reversal Date	Amount (1st leg cash consideration)
<b>Total</b>				

**(ii) Disclosure regarding outstanding Reverse Repo as on 31 December:**

Sl. no.	Counter party name	Agreement Date	Reversal Date	Amount (1st leg cash consideration)
<b>Total</b>				

**b. Disclosure regarding overall transaction of Repo and Reverse repo:**

	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year
<b>Securities sold under repo:</b>			
i) with Bangladesh Bank			
ii) with other banks & FIs			
<b>Securities purchased under reverse repo:</b>			
i) from Bangladesh Bank			
ii) from other banks & FIs			

<b>A. Repo of Coupon Bearing HFT Securities</b>		
<b>REPO 1st Leg</b>		
Face Value of the bond under Repo	a	100,000,000.00
Book Value as on 23/12/2009	b	106,695,338.42
Balance in Revaluation Reserve a/c		6,695,338.42
Coupon	c	10.60%
Coupon Payment Dates		1 Jan & 1 July
Repo agreement Date		24/12/2009
Repo Maturity		26/12/2009
Tenor		3 days
Accrued Coupon upto 23/12/2009	$d = c * 176 * a / 365$	5,111,232.88
Market yield as on 24/12/2009		9.5441%
Market Value as on 24/12/2009 (clean price)	e	105,033,930.56
Cash consideration for 1st leg (Market value of the bond + accrued coupon interest)	$f = e + d$	110,145,163.44
<b>REPO 2nd Leg</b>		
Repo Interest rate	g	4.50%
Repo Interest	$h = f * \text{Tenor} * g / 364$	40,850.54
Total cash consideration for 2nd leg	$i = f + h$	110,186,013.98

**Seller's book :**

Date	Description	Debit	Credit
24/12/2009	<b>1st Leg</b>		
	Cash Account	110,145,163.44	
	Revaluation Reserve Account	6,695,338.42	
	Treasury Bond Account		106,695,338.42
	P/L Account		5,033,930.56
	Coupon Interest Account		5,111,232.88
27/12/2009	<b>2nd Leg</b>		
	Treasury Bond Account	105,033,930.56	
	Coupon Interest Expenditure Account	5,111,232.88	
	Repo Interest Expenditure Account	40,850.54	
	Cash Account		110,186,013.98

**Buyer's book:**

Date	Description	Debit	Credit
24/12/2009	<b>1st Leg</b>		
	Treasury Bond Account	105,033,930.56	
	Coupon Interest Adjustment Account	5,111,232.88	
	Cash Account		110,145,163.44
27/12/2009	<b>2nd Leg</b>		
	Cash Account	110,186,013.98	
	Treasury Bond Account		105,033,930.56
	Repo Interest Income Account		40,850.54
	Coupon Interest Adjustment Account		5,111,232.88

<b>B. Repo of HFT Treasury Bill</b>		
<b>REPO 1st Leg</b>		
Face Value of the bill under Repo	a	100,000,000.00
Acquisition price		90,000,000.00
Book Value	b	99,953,650.28
Balance in Revaluation Reserve a/c		173,431.00
Repo agreement Date		24/12/2009
Repo Maturity		26/12/2009
Tenor		3 days
Market value as on 24/12/2009	c	99,949,803.32
Cash consideration for 1st leg (Market value of the bill as on 24/12/2009)	d = c	99,949,803.32
<b>REPO 2nd Leg</b>		
Repo Interest rate	e	4.50%
Repo Interest	$f = d * \text{Tenor} * e / 364$	37,069.30
Total cash consideration for 2nd leg	$g = d + f$	99,986,872.62

**Seller's book :**

Date	Description	Debit	Credit
24/12/2009	<b>1st Leg</b>		
	Cash Account	99,949,803.32	
	Revaluation Reserve Account	173,431.00	
	Treasury Bill Account		99,953,650.28
	P/L Account		169,584.04
	<b>2nd Leg</b>		
	Treasury Bill Account	99,949,803.32	
	Repo Interest Expenditure Account	37,069.30	
	Cash Account		99,986,872.62

**Buyer's book:**

Date	Description	Debit	Credit
24/12/2009	<b>1st Leg</b>		
	Treasury Bill Account	99,949,803.32	
	Cash Account		99,949,803.32
27/12/2009	<b>2nd Leg</b>		
	Cash Account	99,986,872.62	
	Treasury Bill Account		99,949,803.32
	Repo Interest Income Account		37,069.30

<b>C. Repo of Coupon Bearing HTM Securities</b>		
<b>REPO 1st Leg</b>		
Face Value of the bond under Repo	a	100,000,000.00
Book Value	b	91,500,065.86
Balance in reserve for HTM securities		1,500,065.86
Coupon	c	10.60%
Coupon Payment Dates		1 Jan & 1 July
Repo agreement Date		24/12/2009
Repo Maturity		26/12/2009
Tenor		3 days
Accrued Coupon upto 23/12/2009	$d = c * 176 * a / 365$	5,111,232.88
Market yield		9.5441%
Market Value as on 24/12/2009 (clean price)	e	105,033,930.56
Cash consideration for 1st leg (Market value of the bond + accrued coupon interest)	$f = d + e$	110,145,163.44
<b>REPO 2nd Leg</b>		
Repo Interest rate	g	4.50%
Repo Interest	$h = f * \text{Tenor} * g / 364$	40,850.54
Total cash consideration for 2nd leg	$i = f + h$	110,186,013.98

**Seller's book :**

Date	Description	Debit	Credit
24/12/2009	<b>1st Leg</b>		
	Cash Account	110,145,163.44	
	Reserve for HTM Securities Account	1,500,065.86	
	Treasury Bond Account		91,500,065.86
	P/L Account		15,033,930.56
	Coupon Interest Account		5,111,232.88
27/12/2009	<b>2nd Leg</b>		
	Treasury Bond Account	105,033,930.56	
	Coupon Interest Expenditure Account	5,111,232.88	
	Repo Interest Expenditure Account	40,850.54	
	Cash Account		110,186,013.98

**Buyer's book:**

Date	Description	Debit	Credit
24/12/2009	<b>1st Leg</b>		
	Treasury Bond Account	105,033,930.56	
	Coupon Interest Adjustment Account	5,111,232.88	
	Cash Account		110,145,163.44
27/12/2009	<b>2nd Leg</b>		
	Cash Account	110,186,013.98	
	Treasury Bond Account		105,033,930.56
	Repo Interest Income Account		40,850.54
	Coupon Interest Adjustment Account		5,111,232.88

<b>D. Repo of HTM Treasury Bill</b>		
<b>REPO 1st Leg</b>		
Face Value of the bill under Repo	a	100,000,000.00
Issue Date		01/07/2009
Book Value		94,000,000.00
Balance in reserve for HTM securities	b	-
Repo agreement Date		24/12/2009
Repo Maturity		26/12/2009
Tenor		3 days
Market value as on 24/12/2009	c	98,286,047.29
Cash consideration for 1st leg (Market value of the bill as on 24/12/2009)	d = c	98,286,047.29
<b>REPO 2nd Leg</b>		
Repo Interest rate	e	4.50%
Repo Interest	$f = d * \text{Tenor} * e / 364$	36,452.24
Total cash consideration for 2nd leg	$g = d + f$	98,322,499.53

**Seller's book :**

Date	Description	Debit	Credit
24/12/2009	<b>1st Leg</b>		
	Cash Account	98,286,047.29	
	Reserve for HTM Securities Account	-	
	Treasury Bill Account		94,000,000.00
	P/L Account		4,286,047.29
27/12/2009	<b>2nd Leg</b>		
	Treasury Bill Account	98,286,047.29	
	Repo Interest Expenditure Account	36,452.24	
	Cash Account		98,322,499.53

**Buyer's book:**

Date	Description	Debit	Credit
24/12/2009	<b>1st Leg</b>		
	Treasury Bill Account	98,286,047.29	
	Cash Account		98,286,047.29
27/12/2009	<b>2nd Leg</b>		
	Cash Account	98,322,499.53	
	Treasury Bill Account		98,286,047.29
	Repo Interest Income Account		36,452.24