HMRC - CFM46350 - Repos: Tax Rules: Debtor Repos

Definition of a debtor repo (CTA09/S548)

A company (‘the borrower’) has a debtor repo if all of the following conditions are met:

Condition A: under an arrangement the borrower receives from another person (‘the lender’) any money or other asset (‘the advance’).

Condition B: in accordance with GAAP, the accounts of the borrower record for the period in which the advance is received a financial liability in respect of the advance.

Condition C: under the arrangement the borrower sells any securities to the lender.

Condition D: the arrangement provides that the borrower will or may become entitled or obliged subsequently to buy those or similar securities.

Condition E: in accordance with GAAP, the subsequent buying of the securities would extinguish the financial liability in respect of the advance that has been recorded in the borrower’s accounts.

A company also has a debtor repo if it is a member of a partnership that meets these conditions.

These conditions cover normal repos executed under standard market documentation. However they also go slightly wider: since Condition D does not specify from whom the borrower is entitled or obliged to buy the securities, this can be a person other than the ‘lender’.

Debtor repo: example

1/1/09: The borrower (A) sells securities to the lender (C), for which it receives an advance of 100.

30/6/09: A repurchases the same or similar securities from C for 103, agreed at the outset (this includes a finance charge of 3):

A has a debtor repo because all of the above conditions are met:

Condition A: A receives an advance of money from C.

Condition B: in accordance with GAAP, A records a financial liability in respect of that advance.

Condition C: A sells securities to C.

Condition D: A is entitled or obliged to buy those or similar securities.

Condition E: in accordance with GAAP, the buying of those securities extinguishes A’s financial liability in respect of the advance.

Further points to note

This example corresponds to the creditor repo example at CFM46230 (where C is a company).

A also has a debtor repo if, under the arrangement, it purchases the securities from another person (‘D’) instead of repurchasing them from C. Such a transaction corresponds to the creditor quasi-repo example at CFM46250 (where C and D are companies).