



# Our work programme in monetary and financial statistics - August 2016

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This article is the latest in an annual series reviewing developments in the monetary and financial statistics work programme at the Bank of England. It updates the developments reported in previous articles in this publication and looks ahead to the research and development work planned in 2016/17. It covers both the Bank's in-house projects and those undertaken with other institutions, in particular the Office for National Statistics (ONS).

## Introduction

This article provides an update on the work outlined in this publication in June 2015.<sup>1</sup>

ONS and Bank of England staff continue to work together closely to achieve the work programme objectives. There are periodic meetings to review progress and to plan forthcoming work, complemented by regular contact between staff at the two organisations. This article continues to focus on the work programme for monetary and financial statistics; similar updates on ongoing projects for regulatory data may be published in the future.

One of the main drivers behind many of the projects detailed in this article is the on-going implementation of the European System of Accounts 2010 (ESA 2010), by both the ONS and the Bank of England. This is the most recent internationally compatible EU accounting framework for a systematic and detailed description of an economy.

Readers who require more information on individual projects or have suggestions for future work are invited to contact the author of this article.

## New projects

### *FISIM development project*

The recently published *Independent Review of UK Economic Statistics*<sup>2</sup> by Professor Sir Charles Bean (The Bean Review) highlighted potential deficiencies in the existing methodology for calculating Financial Intermediation Services Indirectly measured (FISIM). The Bean Review identified the impact of additional default premia on FISIM, especially at the height of the financial crisis and suggested that the ONS consider compiling an alternative measure of FISIM though acknowledged the ONS were bound by ESA10 Regulation.

The Bank and ONS will initially produce a joint article on FISIM and the options for compiling a risk adjusted measure. The Bank and ONS will then consider how to influence the next iteration of international standards with a view to changing the current methodology.

### *Other financial corporations' sectorisation*

Due to the long lead times required to introduce some of the ESA 2010 methodological changes to statistical collection processes, the ONS sought and were granted derogations from Eurostat.

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<sup>1</sup> 'Our work programme in monetary and financial statistics – May 2015', by Elias Razak, *Bank of England Bankstats (Monetary & Financial Statistics)*, May 2015, available at: [www.bankofengland.co.uk/statistics/Documents/ms/articles/art1\\_may15.pdf](http://www.bankofengland.co.uk/statistics/Documents/ms/articles/art1_may15.pdf)

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<sup>2</sup> 'Independent Review of UK Economic Statistics – March 2016' by Professor Sir Charles Bean, available at [www.gov.uk/government/publications/independent-review-of-uk-economic-statistics-final-report](http://www.gov.uk/government/publications/independent-review-of-uk-economic-statistics-final-report)

These derogations delay the provision of some of the changes to 2017 and 2018<sup>3</sup>. One of the derogations related to the implementation of the new sub-sector breakdown for other financial corporations (OFCs). The OFC sectorisation project will look to address the additional reporting requirements for the various OFC sub-sectors and aim to deliver the additional data before the derogation expires in 2017.

### *Central bank sector*

A further requirement of ESA 2010 is to produce separate financial accounts for the Central Bank sector (S121). This is also subject to derogation until 2017.

Currently the ONS publish financial accounts for the combined Central Bank (S121), Other Deposit-Taking Corporations (S122) and Money-Market Funds (S123) sub-sector.

This project will ensure the appropriate data flows are available for the ONS to produce separate sets of financial accounts for both the Central Bank sector (S121) and the combined Other Monetary Financial Institutions (S122+S123) taking into account a need to lag the Central Bank data supplied to ONS to meet the Bank's disclosure requirements<sup>4</sup>.

### *Review of the sterling ERI*

The Bank compiles and publishes a sterling Exchange Rate Index (ERI) on a daily basis. The sterling ERI is a measure of the overall change in the trade-weighted effective exchange value of sterling, calculated by weighting together bilateral exchange rates. It is designed to measure changes in the price competitiveness of traded goods and services and so the weights reflect trade flows in manufactured goods and total services.

The current methodology used to derive the trade weights was originally introduced in Spring 2005

<sup>3</sup> 'Update to Institutional Sector Classification under ESA 2010', July 2014, available at: [www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/national-accounts/articles/2011-present/update-to-institutional-sector-classification-under-esa2010.pdf](http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/national-accounts/articles/2011-present/update-to-institutional-sector-classification-under-esa2010.pdf)

<sup>4</sup> 'Replacement of the Bank Return and changes to the release of notes and coin data', by Jon Beadle and Martin Udy, *Bank of England Bankstats (Monetary & Financial Statistics)*, June 2014, available at: [www.bankofengland.co.uk/statistics/Documents/ms/articles/art2jun14.pdf](http://www.bankofengland.co.uk/statistics/Documents/ms/articles/art2jun14.pdf)

and presented in a Bank Quarterly Bulletin article, *The new sterling ERI*<sup>5</sup>.

The underlying competitive weights were estimated by the International Monetary Fund based on global trade patterns in 1999-2001. The Bank is looking to update these competitive weights using trade patterns in 2011-2013. Once complete, the Bank will present the findings in an update of the Quarterly Bulletin article.

### *Structural reform*

Structural reform is a UK policy response to the financial crisis, which aims to improve the resilience and resolvability of banks, by ring-fencing their core services (primarily retail deposit taking and lending functions) from the riskier business lines within the group. This is intended to ensure that the provision of core services is protected from shocks that originate in the rest of the banking group or the wider financial system.

Key structural reform policy changes which will impact statistical reporting include:

- The ring-fenced bank must be structured as a 'sibling', rather than a subsidiary, of the non ring-fenced bank;
- The ring-fenced bank must be capable of meeting prudential capital and liquidity requirements on a ring-fenced sub-consolidation basis; and
- The ring-fenced bank must conduct intragroup arrangements on arms' length terms.

Consequently, in-scope banking groups will change their structure to comply with requirements before the policy comes into effect in 2019. Changes to the structure of in-scope banking groups will impact both statistical and regulatory reporting and the Bank will look to ensure that any structural changes do not adversely affect data quality or coverage.

<sup>5</sup> 'The new sterling ERI' by Birone Lynch and Simon Whitaker, *Bank of England Quarterly Bulletin*, Winter 2004, available at [www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb040402.pdf](http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb040402.pdf)

## Continuing projects

### *Rolling review of forms*

Monetary and financial statistics reporting forms are reviewed on a five-yearly cycle.

- The review of lending to individuals data forms (IS, IC and IO) is underway with details due to be published at the end of December 2016 for reporting from January 2018.
- The new version of the lending to businesses form (LN) has been reported since January 2016 data. The changes are designed to provide additional detail on lending by business size such as an industrial split of gross lending, repayments and overdrafts by size.
- The new version of the effective interest rates form (ER) also came into effect from the beginning of 2016, providing a number of improvements including more detailed breakdowns and a more accurate definition of fixed rate lending. New effective rates data will also be used to improve the weights used within existing Quoted Rates series.
- The new versions of the profit and loss forms (PL and BG) came into effect from Q1 2016. The main changes were to collect additional information on employee stock options, manufactured dividends and business with captive financial institutions (albeit not until Q1 2019 in order to maintain consistency with the money and credit forms).
- The rolling review of the holding company form (HC) identified the need for wholesale changes: so much so that Form HC was discontinued and Form BH introduced. The main differences are to increase the frequency of reporting from annual to quarterly, and to collect a more comprehensive suite of information to comply with the latest National Accounts and Balance of Payments requirements. The new form came into effect from Q1 2016 albeit reporting has been staggered with initial submission for Q1 and Q2 2016 deferred until October 2016 to reduce the burden on reporting institutions

as the implementation of Forms ER and PL was also scheduled for the start of 2016.

- The industrial breakdown of loans and deposits data (Forms AL and AD) are currently under review, with updated forms currently due to be published in 2017 for reporting from 2019 data.

### *Securities issuance statistics*

The Bank continues to work closely with the ONS to improve its securities statistics, including exploring the feasibility of establishing a security level database for holdings statistics.

### *Flow of Funds*

The Barker<sup>6</sup> and Bean<sup>7</sup> Reviews of Economic statistics stated and reiterated the need for the Bank and ONS to work together and develop flow of funds datasets for the UK. A joint project was therefore set up to work towards this, with dedicated resources from both organisations. The purpose of the project is to develop full 'from-whom-to-whom' data for balance sheet levels for the ESA 2010<sup>8</sup> economic sectors and instruments. Ultimately the project aims to expand this, providing who-to-whom information for a further breakdown of the data, including more sectors and financial transactions.

The priorities of the project along with a high level timetable are outlined in the ONS article *Developing the enhanced financial accounts (UK Flow of Funds)*<sup>9</sup>.

### *Influencing international statistical standards*

Work continues on review a range of methodological issues with the goal of addressing

<sup>6</sup> 'National Statistics Quality Review, Series (2) Report No.2: Review of National Accounts and Balance of Payments', July 2014, available at: [www.ons.gov.uk/ons/rel/naa1-rd/national-statistics-quality-review/nsqr-series-2-report-no-2-review-of-national-accounts-and-balance-of-payments/index.html](http://www.ons.gov.uk/ons/rel/naa1-rd/national-statistics-quality-review/nsqr-series-2-report-no-2-review-of-national-accounts-and-balance-of-payments/index.html)

<sup>7</sup> 'Independent Review of UK Economic Statistics – March 2016' by Professor Sir Charles Bean, available at [www.gov.uk/government/publications/independent-review-of-uk-economic-statistics-final-report](http://www.gov.uk/government/publications/independent-review-of-uk-economic-statistics-final-report)

<sup>8</sup> European System of Account, 2010 [ec.europa.eu/eurostat/web/esa-2010](http://ec.europa.eu/eurostat/web/esa-2010)

<sup>9</sup> Economic Statistics Transformation Programme: Developing the enhanced financial accounts (UK Flow of Funds) [www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/economicstatisticstransformationprogramme/developingtheenhancedfinancialaccountsukflowoffunds](http://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/economicstatisticstransformationprogramme/developingtheenhancedfinancialaccountsukflowoffunds)

these in the next iteration of international guidelines. The Bank and the ONS will work together to identify areas where they believe current reporting guidelines should be reviewed or where further clarification is needed e.g. the reporting of negative interest for which there is no guidance in the current international standards or improvement to the calculation of FISIM, as mentioned earlier.

## **Other commitments**

Beyond the bounds of the formal statistical work programme, the Bank is working to identify and address information gaps with other organisations internationally, co-ordinated by the Inter-Agency Group on Economic and Financial Statistics (comprising the Bank for International Settlements (BIS), the European Central Bank, Eurostat, the IMF, the Organisation for Economic Co-operation and Development, the United Nations Statistics Division and the World Bank)<sup>10</sup>. Most of the identified data gaps relate to the Bank's financial stability objective.

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<sup>10</sup> 'The Financial Crisis and Information Gaps: Sixth Implementation Progress Report', September 2015. [www.imf.org/external/np/g20/pdf/2015/6thprogressrep.pdf](http://www.imf.org/external/np/g20/pdf/2015/6thprogressrep.pdf)