



# Our work programme in monetary and financial statistics - July 2017

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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 2017/2018. 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 August 2016.<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<sup>2</sup> (ESA 2010), by both the ONS and the Bank of England. This is the most recent internationally compatible EU 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 via the contact points at the top of the document.

## New projects

### *Review of income on corporate bonds*

The ONS recently undertook a review of income accruing on corporate bonds.<sup>3</sup> The review sought to improve existing estimates of interest payable by utilising existing data and exploring new data sources. The ONS has derived some initial estimates that will be incorporated in Blue Book 2017. The project will continue to explore alternative data sources in order to better estimate income receivable/payable and to explore the potential for resolving possible data asymmetries.

The Bank will continue to assist the ONS with this project by reviewing the proposed methodology and assisting in establishing better or enhanced data sources utilising data sources available to the Bank.

## Continuing projects

### *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. These derogations delay the provision of some of

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<sup>1</sup> 'Our work programme in monetary and financial statistics – August 2016, by Elias Razak, *Bank of England Bankstats (Monetary & Financial Statistics)*, August 2016, available at: [www.bankofengland.co.uk/statistics/Documents/articles/2016/16aug.pdf](http://www.bankofengland.co.uk/statistics/Documents/articles/2016/16aug.pdf)

<sup>2</sup> European System of Account 2010, available at: [ec.europa.eu/eurostat/web/esa-2010](http://ec.europa.eu/eurostat/web/esa-2010)

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<sup>3</sup> National Accounts articles: Improvements to the treatment of Corporate Bonds Interest, April 2017: available at [www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/nationalaccountsarticles/improvements-to-the-treatment-of-corporate-bonds-interest](http://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/nationalaccountsarticles/improvements-to-the-treatment-of-corporate-bonds-interest)

the changes to 2017, 2018 and 2019.<sup>4</sup> The ONS will publish estimates for the first time in Blue Book 2017 of the financial transactions and balances of the 'non-money market investment funds' sub-sector, which is a component part of 'other financial corporations'. The joint Bank and ONS flow-of-funds development work is expected to lead to the publication of further sub-sector breakdowns.

### *Central Bank sector*

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

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

This project will ensure the appropriate data flows are available for the ONS to transmit separate sets of financial accounts for both the Central Bank sector (S121) and the combined Other Monetary Financial Institutions (S122+S123) sector. This takes into account a need to lag the Central Bank data supplied to ONS to meet the Bank's disclosure requirements.<sup>5</sup>

### *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 complete with details published for reporters earlier this year for reporting from January 2018 data.
- The new version of the lending to businesses form (LN) has been reported since January 2016 data and new data published for the first time in the January 2017 *Bankstats*

<sup>4</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>5</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)

publication. 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 industrial breakdown of loans and deposits data (Forms AL and AD) are currently under review, with updated forms due to be published late 2017/early 2018 for reporting from 2019 data.
- The Bank proposes introducing Form FVC with effect from Q1 2019 reporting. Form FVC will collect information from banks' securitisation financial vehicle corporations (FVC).

### *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 economic sectors and instruments. Ultimately the project aims to expand this, providing from-whom-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>8</sup> Recently, the Bank has worked

<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> Economic Statistics Transformation Programme: Developing the enhanced financial accounts (UK Flow of Funds)

on reviewing Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) data collections and their potential statistical use. ONS and FCA have made progress in data sharing and there is a planned secondment from the ONS to the FCA. This should enable better data sharing between the two organisations. Going forward the Bank will act as an advisor on the provision of FCA data.

### *FISIM development project*

The recently published *Independent Review of UK Economic Statistics*<sup>9</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 ESA 2010 Regulation.

In April, the Bank and ONS published a joint article that presented an approach to adjust FISIM to exclude default compensation.<sup>10</sup> The Bank and ONS will then consider how to influence the next iteration of international standards with a view to changing the current methodology.

### *Structural reform*

Structural reform is a UK policy response to the resolution issues highlighted by 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.

[www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/economicstatisticstransformationprogramme/developingtheenhancedfinancialaccountsukflowoffunds](http://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/economicstatisticstransformationprogramme/developingtheenhancedfinancialaccountsukflowoffunds)

<sup>9</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>10</sup> "Financial intermediation services indirectly measured (FISIM) in the UK revisited", April 2017: available at [www.ons.gov.uk/economy/grossdomesticproductgdp/articles/financialintermediationservicesindirectlymeasuredfisiminthekrevised/2017-04-24](http://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/financialintermediationservicesindirectlymeasuredfisiminthekrevised/2017-04-24)

Key structural reform policy changes which will affect 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 affect both statistical and regulatory reporting and the Bank will look to ensure that any structural changes do not adversely affect overall data quality or coverage.

### *Review of the sterling ERI*

The Bank compiles and publishes the 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 and presented in a Bank *Quarterly Bulletin* article, *The new sterling ERI*.<sup>11</sup>

The underlying competitive weights were estimated by the International Monetary Fund (IMF) 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 aims to present the findings in an update to the *Quarterly Bulletin* article and introduce as part of the regular reweighting exercise in March 2018.

<sup>11</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)

## 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, 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>12</sup> Most of the identified data gaps relate to the Bank's financial stability objective.

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<sup>12</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)