



Our work programme in monetary and financial statistics – August 2018

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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 2018/2019. 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 July 2017.¹

ONS and Bank of England staff continue to work together closely to achieve the work programme objectives. There are regular 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.

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 2010² (ESA 2010), by both the ONS and the Bank of England. This is the most recent internationally compatible European 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

Precious metals

Bank and ONS staff are working with colleagues at the London Bullion Market Association reviewing the possibility of publishing data for trade in precious metals as collected by the Bank via Form PM. At present, data for precious metals are not separately published by the ONS and explicit publication of non-disclosive data will help users interpret movements in trade data.

¹ 'Our work programme in monetary and financial statistics – July 2017, by Elias Razak, available at:

www.bankofengland.co.uk/statistics/articles/2017/our-work-programme-in-monetary-and-financial-statistics---july-2017---bankstats-article

² European System of Account 2010, available at: ec.europa.eu/eurostat/web/esa-2010

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 delayed the provision of some of the changes.³

The additional breakdown of the financial sector (and households) was delivered in part in 2017, and the ONS recently published experimental statistics from the ONS Financial Services Survey quarterly return of assets and liabilities.⁴ The joint Bank and ONS Enhanced Financial Accounts (flow of funds) project 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 was successfully achieved in 2017 as part of this project.

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.⁵ Currently, although ONS transmits at the above level of detail, it publishes financial accounts for the combined Central Bank (S121), Other Deposit-Taking Corporations (S122) and Money-Market Funds (S123) sub-sectors.

This project will improve the consistency between ONS and the Bank, improve quality in several areas and provide significant input to the Flow of Funds project.

Rolling review of forms

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

³ '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

⁴ Economic Statistics Transformation Programme: enhanced financial accounts (UK flow of funds) – Financial Services Survey 266 - quarterly return of assets and liabilities, July 2018, available at: www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/economicstatistictransformationprogramme/enhancedfinancialaccountukflowoffundsfinancialservicesurvey266quarterlyreturnofassetsandliabilitiesarticle

⁵ 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

- The review of the industrial breakdown of loans and deposits data (Forms AL and AD) is now complete with details published for reporters early this year for reporting from January 2019 data.
- The Bank has introduced a new form that will collect quarterly information from deposit taking corporations' securitisation financial vehicle corporations. Form FV will be collected with effect from Q1 2019 reporting.
- The Bank has introduced a new form that will collect monthly information on Monetary Financial Institutions' holdings of securities. Form AS will be collected with effect from January 2019 reporting.
- Due to other ongoing initiatives within the Bank's Data and Statistics Division, reviews of other statistical forms are currently on hold.

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 as well as issuance statistics.

Flow of Funds

The Barker⁶ and Bean⁷ 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)'.⁸ Recently, there has been a focus on reviewing Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA) data collections and their potential statistical use.

ONS and FCA have made progress with data sharing through a secondment from ONS to the FCA. The focus has been looking at the FCA regulatory data to explore how this could potentially be used in the financial accounts. As a result of this, FCA have now joined the Flow of Funds project.

⁶ '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

⁷ '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

⁸ Economic Statistics Transformation Programme: Developing the enhanced financial accounts (UK Flow of Funds) www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/economicstatisticstransformationprogramme/developingtheenhancedfinancialaccountsukflowoffunds

There is also an ongoing secondment from ONS to the Bank to explore the European Market Infrastructure Regulation (EMIR) dataset with a focus on how the data could potentially be used to improve existing financial derivatives statistics.

The Bank and ONS are continuing to work together to progress data sharing. Recently, the ONS have provided the Bank with an extract of the Inter-Departmental Business Register (IDBR) for the Financial Services Sector. The Bank intend using this information for a research project to better understand organisational structures with the ultimate goal of ensuring accurate statistical reporting of the financial sector across both organisations.

In April, the ONS published an article on 'Experimental financial statistics for insurance data using Solvency II regulatory data'.⁹

Structural reform

Structural reform is one of a raft of UK policy responses to the financial crisis, it aims to improve the resilience and resolvability of banks, by ring-fencing their core services (taking deposits, making payments and providing overdrafts for retail customers and small businesses) from other activities such as investment and international banking. 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 affect statistical reporting include:

- When a banking group includes both a ring-fenced and a non-ring-fenced bank these should be 'siblings' in the group's structure;
- The ring-fenced bank must be capable of meeting prudential requirements, including for capital and liquidity, 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 from 1 January 2019. Changes to the structure of in-scope banking groups will affect both statistical and regulatory reporting and the Bank is working to ensure that any structural changes will 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

⁹ Experimental financial statistics for insurance using Solvency II regulatory data - enhanced financial accounts (UK flow of funds), available at: www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/experimentalfinancialstatisticsforinsuranceusingsolvencyiiiregulatorydataenhancedfinancialaccountsukflowoffunds/2018-04-30

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*.¹⁰

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 introduce any changes as part of the annual reweighting exercise in March 2019.

Review of income on corporate bonds

The ONS undertook a review of income accruing on corporate bonds in 2017.¹¹ 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 were 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.

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, coordinated 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). Most of the identified data gaps relate to the Bank's financial stability objective.

¹⁰ '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

¹¹ National Accounts articles: Improvements to the treatment of Corporate Bonds Interest, April 2017: available at www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/nationalaccountsarticles/improvementstothetreatmentofcorporatebondsinterest