Effective interest rates (Form ER)

Introduction

The results of this survey are aggregated as weighted averages to calculate effective interest rates by economic sector. Bank of England economists use this information to assess the overall economic impact of changes in Bank Rate on the main sectors of the UK economy. This enables them to monitor the transmission of Bank Rate changes made by the Monetary Policy Committee (MPC) through the UK banking sector and into the economy. This is to gauge the extent of the pass-through of MPC Bank Rate changes to new and existing business rates, the timing of the changes, and the effect of the size of the changes on transmission.

The results need to be sufficiently accurate to allow detailed assessment of the impact of Bank Rate changes, which are often just 25 basis points. In general this will require analysis of reporting institutions' business to account/transaction level. These definitions contain guidance on the methodology to be used in calculating annualised interest rates.

Apart from the Bank of England, other known users of this information are the Office for National Statistics (ONS), Her Majesty's Treasury (HMT) and the European Central Bank (ECB). Aggregated results are published in Bankstats.

Reporting institutions should note that euro-area central banks are required to provide average interest rate statistics to the ECB. Although Form ER is designed to meet the requirements of the Bank of England MPC, we have taken into account the ECB requirements, in order to reduce the burden on reporting institutions. Where the Bank of England and ECB requirements are known to differ, the variation is identified in these notes. In some specified cases reporting institutions are permitted to provide ECB-consistent data if they prefer to do so.

Guidance remains unchanged following the adoption of International Financial Reporting Standards (IFRS) from 2005, as explained in Statistical Notice 2004/06. The Bank would be prepared to consider bringing its definitions more into line with IFRS if the majority of reporting institutions agreed to move to this basis at the same time. However, when the issue was last discussed with banking industry representatives in late 2007, a majority of banks preferred to continue to report under the existing Yellow Folder guidance for statistical reporting.

Coverage

General

The ER return covers sterling business (outstanding and new business) for deposits by, and loans and advances to, UK residents. A definition of 'UK residents' can be found in part II (residence) in the 'Classification of accounts guide'.

For each of the sectors and instruments specified on Form ER the effective interest rate is the average over all types of loans or deposits; over all types of customers and risks; and over business in that month.

Intra-group balances should be excluded from Form ER as far as is possible (ie where counterparty identification is readily available from source systems) as these can distort the rates reported. Reporters should notify the Bank of their practice in respect to intra-group transactions. A definition of intra-group business can be found in Appendix 2 of part III of the sector definitions in the 'Classification of accounts guide' (using the version from January 2014).

ER form reporting should be consistent with the Balance Sheet (Form BE/BT) definitions, the Income and Expenditure (Form PL) definitions, and the General Notes and Definitions – Accruals accounting and Section 16 (mortgage cash backs) unless specified.

Information on cross-form references can be found in the annex at the end of this document.

New business

The coverage for new business is narrower than for outstanding business. The purpose of these data is to determine the marginal cost of lending and borrowing. For the purposes of Form ER, new business covers all accounts opened for the first time during that reporting month and existing accounts where there has been an adjustment to the terms and conditions of the account. Accounts in which there has been a renegotiation of the terms, even if this results in no change, should also be treated as new business. Business that is automatically extended (with no change to the original terms and conditions or renegotiation) should not be included in new business.

More specifically, new business should include:

- New deposit accounts opened;
- New loans advanced;
- Draw-downs of pre-existing loan facilities by corporations;
- Any balances for which the original terms and conditions of the deposit or loan have been adjusted;
- Any balances in which there has been a renegotiation of the terms even if the terms and conditions do not change; and
- For corporates and unincorporated businesses, new business also includes additional deposits into existing accounts (even if there is no renegotiation of terms).

For more information on the treatment of automatically extended business, and other specific examples, please refer to the 'Specific to new business' section on page 12.

Please note, new business does not include:

- Prolongations of existing contracts that occur automatically, and were agreed in the original terms and conditions. For example, mortgage borrowers that automatically revert to a SVR once a fixation period has ended, or depositors that automatically move onto an instant access savings account at the end of their fixed term, should not be included in new business.
- New deposits into existing accounts by individuals and individual trusts, unless there has been a renegotiation of the terms.

Reporting institutions should also be aware that these definitions differ from those of the ECB[1], who define:

- New deposits as accounts arranged for the first time in that reporting month and new negotiations of existing deposits. This is the same for the ER data for individuals and individual trusts. However, for Form ER, new corporate and unincorporated business deposits reflect all deposits, regardless of whether they are new accounts or deposits into old accounts; and
- New corporate lending as the rate at which lenders are willing to provide newly arranged credit in that reporting month, while outstanding amounts reflect the rate applied to the stock of loans. Therefore, the ECB new business rates reflect the agreement of a new facility; whereas ER data only reflect the drawn-down balances within that facility.

In the past this ECB definition had been interpreted by some reporters as allowing loans that are automatically extended to be included. If source systems allow automatically extended funds to be identified separately from other business, they should be excluded from new business. Reporters should notify the Bank if automatically extended funds cannot be excluded, or if the ECB definition is their reporting basis.

Sectorisation

The economic and institutional sector coverage follows Parts 111.2 – 111.10 of the sector definitions in the 'Classification of accounts guide'. Within this are the detailed definitions of PNFCs, Individuals and individual trusts, and unincorporated businesses (eg sole traders).

Instrument classification

General

Instrument classification on Form ER is consistent with other reporting forms, unless otherwise stated. General comparisons with other forms are given in the section beginning on page 18. Guidance on some specific instruments is given here. Reporting institutions should contact the Bank whenever they are unsure of the correct classification of a particular instrument. We will endeavour to update these definitions with further examples as they arise.

[1] See http://www.ecb.int/pub/pdf/other/mfiintrestratestatisticsmanualen.pdf

As the primary objective of Form ER is to achieve the most accurate calculation of effective interest rates, comparisons against other returns are of secondary importance. We therefore request that gross average balances and gross interest accruals are reported wherever possible. However, we are aware that in certain cases this may not be possible, and we will allow such balances to be reported net if gross information is unavailable. In such cases the interest accruing on the net balances should be reported.

The ‘fixed original maturity’ breakdown relates to instruments with an identified maturity date – these maturity bandings do not have an upper or lower limit. A loan/deposit with fixed original maturity can have either a floating or a fixed interest rate.

A floating interest rate is linked to a reference rate (eg Bank Rate, LIBOR, SONIA, the institution’s standard variable mortgage rate, or equivalent) and/or can change throughout the life of the loan or within a fixed term. A fixed interest rate is not directly linked to a reference rate. The ‘initial fixation’ period on a loan relates to the time for which the interest rate is fixed.

For the purposes of ER reporting, interest bearing balances include accounts eligible to earn interest (even if they are not currently doing so) under the terms and conditions of the account. Non-interest bearing refers to accounts that will under no circumstances be able to earn interest in that period. This is further explained in the relevant sections below.

Deposits

1,2,4, 5,10A, 11A,16, 17,19,20, 24A, 24B, 25A, 26A, 32,33

Sight deposits are defined as credit balances on customers’ accounts (including shareholders’ deposits) where the entire balance is accessible without penalty either on demand or by close of business on the day following that on which the deposit was made.

Sight deposits are classified as either interest bearing or non-interest bearing. Accounts whose terms and conditions do not provide the possibility that interest will be paid on balances held within the account are considered non-interest bearing. Interest bearing sight deposits are all sight deposits which currently earn interest or state in the terms and conditions of the account that they are eligible to earn interest once certain conditions are met (even if they are currently earning no interest). Accounts which pay interest once customers meet certain conditions, eg that they hold a threshold level of balances within the account, or require customers to pay in a certain amount each month (whether or not they currently satisfy that condition) are considered interest bearing.

Sight deposit accounts used for mortgage offset should be treated as interest bearing.

For interest bearing deposit accounts offering a cash reward (either on opening the account or on a monthly basis) the reward payment should be included in the average daily balance (A) if it is automatically paid into the account, but should **not** be included in the interest flow (B). Non-interest bearing deposits offering a cash reward (either on opening the account or on a monthly

basis) should have all balances (including the reward payment) recorded as non-interest bearing.

25A1, 26A1 — For individuals and individual trusts, ‘current accounts’ are separately identified within interest bearing and non-interest bearing sight deposits. The aim here is to capture accounts that customers are using for transactional purposes, rather than for saving. Generally, such accounts are designed for customers making a regular number of transactions, for example, whether by direct debit or standard order; by cash withdrawal from an automated teller machine; by cheque; or by debit card. In the majority of cases these will be products marketed as current accounts. Deposits which are held in an account for mortgage or other loan offset should not be treated as current accounts; they should still, however, be treated as sight deposits, in line with Form BE definitions.

27A-30B,& 85A-**85C** — Only Cash ISAs/NISAs should be reported on Form ER; stocks and shares ISAs/NISAs should not be reported. Cash ISAs/NISAs should be classified as time deposits, consistent with their balance sheet treatment. Term products should be reported under ‘fixed original maturity’ lines (27A-29A and 85A-85C). All other ISA products should be reported according to the access to the funds:

- Accounts allowing immediate access (or access with notice up to 3 months) to capital without penalty should be classified as *‘time – redeemable at notice: <= 3 months’* (line 30A, but not in new business); and
- Accounts requiring more than 3 months notice for access or incurring a penalty (other than tax implications) should be reported as *‘time – redeemable at notice: > 3 months’* (line 30B, but not in new business).

31C1 — All cash ISAs/NISAs, both fixed and variable rate, should be reported on the ISA/NISA line for outstanding business (31C1).

87C — Line 87C (new business ISA/NISA) should only contain term ISA products, as reported in the ‘fixed original maturity’ lines 85A-85C). Fixed rate ISA/NISAs should not be reported in *‘time – of which Fixed Rate Bonds’* (lines 31A1-31A3 or 87A1-87A3).

Updated in Statistical Notice 2016/01

27A-31A3 & 85A-87A3 — Fixed Rate Bonds (FRBs) should be included in the *‘time – fixed original maturity’* lines and also in the *‘time – of which Fixed Rate Bonds’* lines. These products must have a specified nominal interest rate, and will usually have a specified maturity date. **In order to capture rates consistent with pricing strategies, the reporting of fixed-rate bonds is split by the initial fixation period (eg initial fixation 2 years) with 3 month ranges either side. The intention is that the resulting aggregate rate should reflect the rates charged for 2 year products regardless of whether, in practice, the fixation period turns out to be shorter due to administrative reasons. For more information please see detail relating to mortgages below.**

Customers may either lose interest by accessing their capital before the maturity date or may not

be able to access the capital at all. FRBs are split by maturity, reflecting lines 27A-29A and lines 85A-~~87A~~**85C**.

25A1, 26A1, 31A1 - 31C1 & 87A1- 87C

Please note that the ‘of which’ lines are not an exhaustive list of the possible products within a specified total line. As such, the ‘of which’ lines for deposits (25A1, 26A1, 31A1-31C1; and 87A1-87C) are not expected to sum to their respective total lines, but they are expected to form part of the total lines, for example the figures reported in lines 31A1 – 31C should also be included somewhere in lines 27A-29A.

31D & 87D

Guaranteed equity bonds (GEBs) should **not** be included in the *‘time – fixed original maturity’* lines; they should only be included on the *‘Guaranteed Equity Bonds’* lines. These products, which can also be called structured products or capital guaranteed products, generally do not pay interest monthly or annually but only at the end of the original maturity. This interest payment is usually based on the movement of an index (such as the FTSE100) and as such, the interest cannot be determined until the maturity of the product.

Loans

Other loans and advances comprise all balances with and funds lent to UK residents (whether against collateral or not), including amounts receivable under finance leases, but excluding claims under repurchase agreements. Detailed definitions are given in the notes to Form BT, items 21, 23 and 29.

55A1- 60A,114 A-119A

For individuals and individual trusts, loans ‘secured on dwellings’ are defined as mortgages on properties that are or will be occupied by the borrower, or will be rented (ie let to others, therefore including buy-to-let mortgages to individuals), where such loans are fully secured by a first equitable or legal charge (including an omnibus charge). Freehold and leasehold properties should be included. Loans for home improvements, repairs and maintenance also secured by a first charge over the property, and mortgage sub-participations fully and specifically secured against residential mortgage loans should be included. Draw-downs of pre-existing residential mortgage facilities by Individuals (as long as they are secured by a first charge over the property) are included in both outstanding and new business.

If any part of the property is used for commercial purposes (such as for properties that are rented to commercial tenants), the mortgage loan should not be reported in this line. Instead it should be included in lines 52E-52H and 113A-113D (see below). However, mortgage loans secured on property where the occupier works at home but no structural alterations are required to return the property to full residential use may be reported here.

56A1- 59A,

In order to capture rates consistent with pricing strategies, the reporting of loans ‘secured on

114A-117A2

dwellings' is split by the initial fixation period (eg initial fixation 5 years) with 6 month ranges either side. The intention is that the resulting aggregate rate should reflect the rates charged for 5 year products regardless of whether, in practice, the fixation period turns out to be shorter due to administrative reasons (eg 58 months) or longer due to product particulars (eg 62 months). So the 'of which' initial fixation period boxes should be reported with up to 6 months above the fixation term for the upper limit and 6 months below the term for the lower limit (ie within the range of 54 months up to 66 months in the case of a 5 year product).

Details of the upper and lower limits are shown in the table below. Please note: this treatment **applies to mortgages and fixed-rate bond products**, but does not apply to any other sector or loan instrument eg PNFCs or other loans & advances to individuals.

Updated in Statistical Notice 2016/01

Initial fixation period	Lower limit	Upper limit
Of which <=2yrs	**0 months**	**30 months**
Of which 3yrs & 4yrs	**Over 30 months**	**54 months**
Of which 5yrs	**Over 54 months**	**66 months**
Of which >5yrs <= 10yrs	**Over 66 months**	**126 months**
Of which >10yrs	**Over 126 months**	**Unlimited**

Please note that this is our preferred method of treatment. Reporters that are unable to provide data using this guidance should inform the Bank.

55A1, 55A3 & 114A – 114A1

A distinction is made between different floating rate mortgage products:

1. Mortgages which are on the reporters Standard Variable Rate (SVR), or equivalent, should be included in the *'secured on dwellings - floating rate'* lines (55A1 and 114A) and the '*floating rate – of which SVR'* line (55A2) even if they are capped.

2. Mortgages linked to the SVR, such as discounts, are only reported in *'secured on dwellings - floating rate'* (lines 55A1 and 114A) whilst within their discount period**,** and should not be reported in line 55A2, '*floating rate – of which SVR'.*

3. A Lifetime Tracker (LTT) mortgage is defined as a mortgage linked directly to the Bank of England's base rate and the margin is fixed for the full term of the mortgage eg 25 years. LTT mortgages should be included in new business floating rate lines (114A) and the 'floating rate – of which LTT' line (114A1). For outstanding business, LTTs should be included in the overall floating rate line (55A1) and 'floating rate – of which BRT' line (55A3).

4. Bank Rate Tracker (BRT) mortgage products are linked to the Bank of England's base rate and the margin between the reference rate and the mortgage is fixed for a specific time period

or for the full term of the mortgage. BRT mortgages should be in the floating rate lines (55A1 and 114A) and the '*floating rate – of which BRT'* line (55A3).

Credit Cards

61A-62C Credit cards are broken down into 'interest chargeable' and 'no interest charged':

- 'No interest charged': balances within 0% interest incentive arrangements and balances still within their interest free period (often 56 days).
- 'Interest chargeable': all other balances, with an associated interest flow, should be classified as 'interest chargeable' in that period, and the total interest flow from these accounts should be included in column B.

The Bank recognises that a particular borrower may be experiencing a 0% incentive offer whilst paying interest on purchases, and asks that these balances are separated between 'no interest charged' and 'interest chargeable' respectively.

Credit cards are also broken down by use of the card. 'Interest chargeable' captures rates and balances for balance transfers, purchases and cash withdrawals separately; 'no interest charged' balances are broken down into incentive offers for balance transfers, and purchases. These transaction types are defined as follows:

1. 'Balance transfer' - balances transferred to the current credit card, generally from another credit card. If the balance has been transferred on a 0% interest incentive offer (ie 0% interest is paid on the transferred balance for a stated number of months) then it is included under 'no interest charged' and *'no interest charged - of which incentive offer for balance transfers'* (lines 62A and 62B). When the 0% interest period ends, the remaining balance is moved to 'interest chargeable' and '*interest chargeable - of which balance transfers*' (line 61A and 61B) and the associated interest flow is then reported. Balances transferred that are not on a 0% interest incentive arrangement should only ever be included under 'interest chargeable' and '*interest chargeable of which balance transfer'*, line 61A and 61B.

2. 'Purchases' - balances used for spending with a credit card. *'Interest chargeable'* (line 61A and 61C, column A) are balances from making purchases, which are being charged interest so have an associated interest flow. These would be the case when the balance has not been paid off within the interest free period, and the balances are not part of an incentive offer arrangement.

   Purchases made which are still in the interest free period (for example, before the billing date, often 56 days) should be reported under 'no interest charged' line 62A, but not under line 62C. Any purchase made within a 0% interest incentive offer arrangement (eg a rate of 0% interest is paid on purchases for a stated number of months) are classified as 'no interest charged' and '*no interest charged - of which incentive offer for purchases'*, lines 62A and 62C. When the 0% interest period ends these accounts will be classified as either 'interest chargeable' as

well as *'interest chargeable of which purchases'*, line 61A and 61C or 'no interest charged', line 62A, depending on whether there is an associated interest flow or not.

3. 'Cash withdrawal' - balances and associated interest flows for withdrawing funds from an ATM, at a branch, as cash back or via a money transfer are reported in 61A and 61D.

The Bank recognises that interest applied will relate to balances and purchases in earlier periods and that these may now have been repaid. The aggregate effects of this anomaly are expected to be offset month to month.

Charge cards, for individuals, should be reported in the credit card lines, lines 61A or 62A, according to whether interest is being charged or not.

Updated in Statistical Notice 2016/01

62D

Fees charged for the use of a credit card are reported separately in line 62D, column B. The types of fees which should be included are balance transfer fees, money transfer fees and cash withdrawal fees **only (i.e. fees such as default fees should not be reported).** Reporters should contact the Bank if they are unsure where to report certain credit card fees.

Overdrafts

Overdrafts comprise debit balances on accounts, which, if in credit, would be classed as deposits.

41, 49, 49A, 52A, 63A-63C, 68

Overdraft accounts for individuals and individual trusts are broken down into 'interest chargeable' and 'fee chargeable'. An account is 'interest chargeable' (63A) where an interest rate is charged on some or all of the overdraft balance. An account is 'fee chargeable' (63B) where as a result of authorised or unauthorised overdraft lending having occurred, for some or all of the overdraft balance, application of an interest rate has been replaced by some form of a daily or monthly fee, eg a daily fee of £5 per day, or monthly fee of £30, if overdraft borrowing occurs. The fee income from these accounts should be reported in column B.

Some accounts charge both an interest rate and a set fee when overdrawn (depending on whether the overdraft balance is planned/authorised or unplanned/unauthorised, for example). Under these circumstances, as the charging structure is complicated, and there is both interest and fees, the entire balance and the associated interest should be reported under *'interest chargeable'* (63A). The additional fee income (without the balance) should be reported in *'fee chargeable'* (63B) column B only, ie the balance is not split between the 'interest bearing' and 'fee bearing' lines, but the interest and the fee are recorded on the respective lines.

Overdraft accounts within their interest or fee free buffer should be included within line 63A or line 63B, depending on whether borrowing above this limit would be subject to an interest rate or a fee.

Updated in Statistical Notice 2016/01

Other fees associated with overdraft accounts for individuals and individual trusts should be reported on line 63C, column B. **The types of fees we would like to be covered here are fees associated with additional borrowing.** For example, paid item/transaction fees ie charges for payments that are honoured when the customer has exceeded their agreed overdraft limits.

Reporters should contact the Bank if they are unsure where to report certain overdraft fees.

For PNFCs, unincorporated businesses, public corporations and non-profit institutions serving households, only interest chargeable balances (and the associated interest income) are reported on lines 49, 49A, 52A, 41 and 48. For PNFCs, balances and any interest charged on overdrafts to 'small and medium sized PNFCs' are reported separately. Small and medium sized PNFCs are defined below.

Other Loans and Advances

64A–64D & 120A-120D

Other loans & advances to individuals cover all loans and advances to individuals not included in items 55A1- 63C and 114A – 119A; for example, this should include personal unsecured loans but should not include overdrafts outstanding to individuals.

52E-52L & 113A-113H

For unincorporated businesses, secured loans are reported separately to loans which are unsecured. The secured loans should include loans secured on dwellings for commercial purposes (such as for properties that are rented to commercial tenants), buy-to-let loans to unincorporated businesses and, loans secured on other collateral, for example, commercial paper. For unincorporated businesses, loans that are classified as secured may not be fully secured; the whole loan is classified as secured if the collateral is above a certain level, deemed to be a level at which it impacts the price of the loan. If the collateral does not meet this criterion, the whole loan is classified as unsecured. This differs to guidance used for regulatory reporting, as the focus on Form ER is on separating out loans that are priced differently.

50-51C, 101A-102A3

Loans to PNFCs are split by fixed and floating rate and by size of business. Loans which are priced as Bank Rate, LIBOR, SONIA (or some other reference rate) +x% should be classed as floating rate (lines 50 and 101A). This will include loans where the rate is fixed for a short period of time eg the amount of interest that the borrower pays is fixed for 3 months at a reference rate +x% and is then reset for the next 3 months according to the current reference rate +x%. In other words, all loans directly linked to a reference rate variable within the loan period are considered floating rate. Fixed rate loans are defined as those not linked to a reference rate and will remain the same throughout the length of the fixation period. All fixed rate loans are reported on lines 51A and 102A.

Further detail is required for loans at fixed and floating rates to small and medium sized PNFCs. The ER definition of a small and medium is aligned to other Bank of England statistical returns (for example, Form LN), and is based on annual debit turnover on the business account:

Small and Medium: up to and including £25million

Please see Form LN definitions for alternative approaches to business size classifications.

Floating rate loans to small and medium sized PNFCs are reported according to their reference rate, so that loans linked to Bank Rate or LIBOR/SONIA are reported in the total floating rate lines (50, 50A and 101A, 101A1) as well as in the respective reference rate lines (50A1-50B3 and

101A2-101A7). Loans linked to all other reference rates are reported in the total floating rate lines (101A, 101A1 and 50, 50A).

Updated in Statistical Notice 2016/01

Floating rate loans to small and medium sized PNFCs are also broken down by the frequency of reset period (daily, <3mnths, >=3mnths). **A reset period reflects the elapsed time between a change in the reference rate and a change in the rate of the floating rate loan.** A set number of days may be used to reflect these reset periods, e.g. 91 days can be used instead of 3 months. The length of the reset period may change throughout the floating rate loan; this will be reflected in outstanding business only, unless there is a change to the original terms and conditions of the loan.

Updated In Statistical Notice 08/2018

Boxes labelled as LIBOR linked lending to PNFCs on form ER (lines 50A1-50A3 and 101A2-101A4) should include both LIBOR and SONIA linked transactions.

For loans which are rest on a daily basis, the reference on that date (eg Bank Rate) and margin is converted to a daily rate and that amount is accrued as interest for that day. For loans which are reset on a 1, 3 or 6 month basis, for example, the reference rate on the date of reset is used, in addition to the margin.

35A-35F & 70-77 **Memorandum items**

Memorandum items for loans and deposits allow for balances that are omitted from the main sectoral analysis of the form.

For loans, balances are moved to the memorandums items usually because the rate would have a distortionary effect on the overall rate on the line. For example: for non-performing loans (including ‘bad’ credit card loans); loans traded at discount; and preferential loans (but excluding intra-group loans). Where these loans represent a small proportion (eg less than 5%) of outstanding balances in any category, reporting institutions may include them either in the main sectoral analysis (items 40 to 69) or separately under memorandum items (70-77). If these loans represent 5% or more of outstanding balances in any category, they should be omitted from the main sectoral analysis – items 40 to 69 – and shown separately under memorandum items, to avoid distorting the overall rate on the line. Preferential ‘Staff loans for lending secured on dwellings’ are covered separately under item 60A, and should not be included in lines 70-77.

Corporate credit cards are reported only in memorandum items. This treatment differs to treatment on Forms’ BE LN and PL in which corporate credit cards are classified as corporate loans.

For deposits, the memorandum items are identified on a case by case basis, following consultation with the Bank. Generally, they include products with rates that are not in line with market conditions, which would have a distortionary effect on the overall rate. The Bank also

recognises that new products may come into the market, which may not be best captured in the main sector breakdown on the form and memorandum items may be used to monitor these products. Again, this will be decided on a case by case basis. Consultation may be initiated by the Bank, or alternatively reporting institutions should contact the Bank to clarify whether certain balances and their associated rates should be reported in the memorandum items.

Capped and floored rates

A variable rate loan or deposit with a capped or floored rate should be classified as variable rate, even when it is equal to the cap or the floor.

Netting

Offset and pooled products generally pay/charge interest on a net basis. As such we would like these products to be reported on a net basis. This same treatment should also be applied to prime brokerage accounts. For all of these accounts (except offset mortgages), if they form a significant proportion of outstanding balances in any category (5% or more), they should be omitted from the sectoral analysis and shown separately as memorandum items (70 to 77 for the relevant sectors).

Specific to new business

Deposits

79A-88 Time deposits with fixed original maturity are the only type of deposit required under new business rates on Form ER. For individuals and individual trusts and unincorporated businesses these are generally fixed or escalator bonds, guaranteed equity bonds, term accounts or money market deposits. Overnight deposits and overdrafts are not covered in the new business section of the ER as their average rate is unlikely to differ from the average rate for outstanding business.

Loans

Setting up a new loan facility is not in itself new business; new business arises on the advancement of the loan.

A loan drawn down from within a facility, paid back *more than* one month later, and then (fully or partially) drawn down again is, again, reported as new business. The same principle is applied to flexible offset mortgages.

101A - 102A3 Loans that are automatically re-advanced to PNFCs, perhaps as part of a revolving credit facility should not be included in new business. Similarly, loans that are reset against a reference rate

should only be reclassified within outstanding business, even if the length of the reset period changes for the drawn down funds, as this is not considered a change to the original terms and conditions. Any change to the original terms and conditions of the loan contract for example: underlying rate; maturity; or size, which was not agreed in advance, is classified as new business. All renegotiated loans, even if the negotiation does not lead to a change to the terms of the account are also classified as new business.

For example, a loan to a small and medium sized PNFC is for 18 months at a rate of 50bps + LIBOR (or SONIA) which is to be reset after 3 months will originally be reported in new business lines 101A, 101A1 and 101A4 and outstanding business lines 50, 50A and 50A3. After 3 months, the reference rate is reset and the borrower may change the reset period to 1 month time. This loan will then be reported in outstanding business lines 50 and 50A2, but will not be reported in new business.

However, if after the first 3 months there are change to the original loan contract eg the rate changes to 75bps + LIBOR (or SONIA) again, to be reset after 1 month, then it will also be classified as new business on lines 101A, 101A1 and 101A3.

114A-119A New loans secured on dwellings include remortgages. However, automatic changes in rates, for example at the termination a short-term fixed/discount arrangement, do not represent new business. For example, at the end of the fixation period of a two year fixed rate mortgage the loan may automatically be transferred to the reporter’s standard variable (or equivalent) rate. As the transfer has occurred automatically and is in line with the initial terms and conditions, this is not new business, and it should then be reported as a floating rate product in outstanding business lines 55A1 and 55A2. However, if the borrower actively moves the outstanding loan to a new product then this should be reported as new business.

Ported loans are **not** classified as new business, unless there is a change to the terms and conditions (eg the size of the loan, interest rate and initial fixation period) of the loan. If porting leads to a change in the terms and conditions, or there is a renegotiation of the terms, but not change, it should be included in new business. This will include refinancing to increase the size of the original loan. Please note that this is different for Form IS where all ported loans are treated as new business.

A tacit agreement in which a customer is informed of but does not oppose a new proposal of the terms and conditions, is classified as new business as the customer could have opted for an alternative.

112A, 118A1 Gross new fees charged on PNFC new business loans and new lending to Individuals and Individual trusts secured on dwellings should be reported in boxes 112A and 118A1 respectively. These fees should be reported when they are charged, even though this will mean the fees might not correspond with the new lending balances (drawdowns) reported in column D of lines 101A-102A3 and 114A-117A2. Fees included should be associated with the start-up of a product and include fees such as

product fees, arrangement fees, legal fees, valuation fees and CHAPS fees. These should not include any fees paid by the lender which are not passed onto the customer. As such, we expect that the fees reported in these lines are only those which are borne by the customer.

Short term loans (of less than one month) - should be excluded from new business as they can distort the lending rates by being automatically re-advanced or renegotiated frequently. Please note, these loans should still be included in outstanding business.

Restructured non-performing loans should not be included in new business as restructuring is likely to be instigated by the reporter and not the client, and the objective of Form ER new business variables is to identify the latest rates obtained by clients making new investment and borrowing decisions.

Traded loans should not be included as new business because they involve no renegotiation of the original agreement with the depositor/borrower. However, the balances and interest accruing on these secondary market traded loans should still be reported as loans in outstanding business lines, consistent with BT/BE reporting.

Capitalised interest should not be considered new business and so should only be reported in outstanding business.

Calculations

Please note that rounding of balances should not occur until the ER return is complete. Early rounding can distort the rate in column C.

Outstanding business rates

Institutions are advised to complete columns A, B and C in that order. Column C (the annualised interest rate) should be completed last as it is the product of the average daily balances and the accrued interest flows.

Average daily balances (column A)

Average daily balances for outstanding business should be calculated by averaging balances on those accounts that are defined and reported separately on Forms BT and BE (mapped in the annex, although differences in balances will occur as ER captures average daily balances, whilst BT and BE capture end-month stocks). This can be done either by taking an average close-of-day balance for each client over the month and summing for all clients, or by summing all client close-of-day balances each day and then reporting the average of these total balances. In exceptional cases an estimate of the average daily balance may be used where daily balances are unavailable and where this provides a close approximation to the truth. For instance a four point average over the month may be acceptable for credit card balances where these remain relatively unchanged month-on-month.

Following the average daily balances methodology, sum the client averages to obtain the aggregate average balance for the sector over the month. Enter this in thousands in column A.

Points to note:

(i) Only those balances on which interest is paid or received (ie included in column B) should be used in the calculation of effective rates. Since interest is traditionally paid on cleared balances, reporting institutions should use average cleared balances in the ER calculation.

(ii) If interest is charged/paid on a net basis across a number of accounts, balances and interest flows are expected to be reported net. This presumes that the actual interest charged/paid feeds into the ER calculation in column C. If interest is charged/paid on a gross basis, balances and interest flows should be reported gross, even where a legal right of set-off exists.

If this approach is expected to cause distortion to interest rates calculated in column C, reporting institutions should contact the Bank of England for guidance.

(iii) On accounts where balances can fluctuate between credit and debit balance, such as current accounts with overdraft facilities and cash margin accounts, the balances and their applicable interest accruals should be treated separately: while in credit these are deposits and while in debit they are loans (usually overdrafts). Please note that if these are cash margin accounts, non-interest bearing balances should be placed in the non-interest bearing line for deposits and in memo-items for loans.

(iv) Balances should be reported gross of provisions (eg for doubtful loans).

(v) Credit balances held in debt recovery situations should be excluded from the ER return. They are normally non-interest bearing 'deposits' and could distort calculated measures.

(vi) However, non-performing loans/overdrafts which are not written off should continue to be included within the gross average balance for the period. Where interest is deemed to have accrued, it should be included in the interest flow for the period. In the event interest has not been received, such loans should still be reported and allowed to depress the overall interest flow/interest rate. However, where these loans form a significant proportion of outstanding balances in any category (5% or more); they should be shown separately as memorandum items (70 to 77 for the relevant sectors) as loans at preferential rates.

(vii) Where interest is added to a loan balance, this should also be treated as an interest receipt in the usual way.

(viii) Any offset, actual or notional, arising from mortgage cash backs should be excluded from the average balances. Where possible, other mortgage 'add-ons', such as insurance, fees and penalties, should also be excluded from the average balances.

Interest flows (column B)

As with average balances, reporting institutions should quantify the accrued interest flows from their profit and loss accounts, and split them by sector and product type. This is expected to be on a contractual basis as opposed to the effective yield basis outlined within IFRS.

Accrued interest flows should reflect interest accrued only on balances included in column A.

Points to note:

(i) Interest flows and/or annualised interest rates should be reported on an accrued basis as opposed to a cash basis, ie reported when the interest is earned, on a monthly basis, as opposed to when the interest is actually paid.

(ii) There are a limited number of products for which the interest cannot be calculated on a monthly basis, and so cannot be reported on an accruals basis. For example, the interest received on equity-linked deposits such as guaranteed equity bonds depends on the performance of the equity portfolio, and so can only be known, and applied to the account at maturity. Similarly, where a fixed rate bond or ISA/NISA pays a bonus rate which is conditional on only a limited number of withdrawals being made, then this interest flow can only be reported at the end of the term to which the condition applies. With unconditional or guaranteed bonus rates, however, the interest from the bonus rate is known at the start of the term and can be accrued across all months of the term.

(iii) Interest flows should be reported gross of taxation. For example, the interest payable on deposits from Individuals should be reported before any deduction of basic-rate tax from deposit interest; this deduction is treated as a separate and subsequent flow within the national accounts.

(iv) Accrued interest receivable/payable, including any interest received and accrued on non-performing loans, should be reported gross of provisions.

(v) Report the interest receivable gross on loans subject to mortgage cash backs, ie in such a way as to exclude the effect of amortisations of differences in the stream of interest receivables due to lending at a discounted or premium rate during the initial tie-in period. For further guidance see the General Notes and Definitions, Section 16.

(vi) Include interest flows related to one-off tax-efficient special arrangements, and their balances.

Annualised interest rates are the product of the average daily balances and the interest flows, and should be calculated after columns A and B have been compiled.

The required calculation is:

$$\frac{\text{Interest flows}}{\text{Average (daily) balance}} \quad X \quad \frac{\text{No of days in year (365 or 366)}}{\text{No of days in month}} \quad X \quad 100$$

Annualised interest rates should be shown to two decimal places (including integer numbers, eg 7% should be reported as 7.00). Do not include the percentage sign ('%').

Reporting institutions should annualise the rate using the number of days in the reporting month, or the number of days over which the interest flow has been accrued, in order to minimise monthly volatility in the rate. For example, if the month has 30 days, but the interest is accrued according to 29 billing days, then 29 should be used in the calculation above. Simply assuming 12 equal months will create distortionary effects due to the mismatch in the number of days over which the interest flow has been calculated and the number of days used to annualise the rate. For example, credit card interest flows reported for February are likely to be lower than in other months. Assuming 12 equal months, however, will artificially reduce the annualised rate in February especially, as 30 days will be used to calculate the rate rather than 28.

New business rates

Whereas outstanding business rates must be derived as a function of average daily balances and interest flows over the month, for new business, column B should be the sum of the one-day interest accruals for each new loan or deposit.

For interest rates on new business reporting institutions may choose one of two options:

(a) Using the first day's interest accrued on new deposits (or loans). For each new business transaction this involves recording the size of the new deposit (loan) and the one day's interest accrual. Column A would be calculated as the sum of all new deposits (loans) divided by the number of days in the month. Column B would be the sum of the one-day interest accruals recorded for each new deposit (loan). Column D is the sum of new deposits (loans) during the month. Column C would be calculated in the usual way, remembering not to round the data before completing the calculation, ie:

$$\frac{\text{Column B}}{\text{Column A}} \quad X \quad \frac{\text{No of days in year (365 or 366)}}{\text{No of days in month}} \quad X \quad 100$$

(b) As the weighted average interest rate on new deposits (loans) during the month, input directly into column C. This is calculated by multiplying each new deposit (loan) by the (annualised) interest rate applicable on the transaction date, and dividing by the sum of new deposits (loans) during the month. In this case columns A and B would be left blank, but column D is reported as the sum of new deposits (loans) during the month.

For all new business lines, the ratio of gross new balances (column D) to average daily balances (column A) should equal the number of days in the reporting month. Small differences may arise

due to rounding and small balances can inflate this rounding difference further.

Annex: Cross-form information

Validation

Interest flows (column B) should cross-validate with relevant items from the Form PL. Specific validations are given with the Form PL.

Comparisons

Since the sector balances required for this form are averages rather than end period balances, as in Forms BT and BE, no cross-form validation of balances is possible for Form ER. However, most of the items on Form ER correspond to items on other forms as shown below, therefore comparisons between the two can be performed as a rough check and these will be undertaken periodically by the Bank. These are indicative only, however, as the balances reported on Form ER should represent total average daily balances during the month. This contrasts with other Bank returns, which require end period balances. Other variations may arise because of differences in the treatment of netted accounts between reporting forms.

ER item	Titles and comparable items on other BoE returns
Deposits	
	Central and Local Government
1-2	Sight deposits: BT£2E+BT£2F
3	Time deposits: BT£3E+BT£3F
	Public Corporations
4-5	Sight deposit: BT£2G
6A	Time deposits: BT£3G
	UK MFIs - Banks (including Central Bank) and Building Societies
10A-	Sight deposits: BT£2A+BT£2B + BT£2C, excluding intra-group balances.
11A	Time deposits: BT£3A+BT£3B + BT£3C, excluding intra-group balances.
12A	
	Financial Corporations other than banks and building societies
16	Non-interest bearing sight deposits: BE£2H1-BE£2HA1 excluding intra-group balances.
17	Interest bearing sight deposits: BE£2HA1 excluding intra-group balances.
18	Time deposits: BE£3H1 excluding intra-group balances.
	Private Non-financial Corporations
19	Non-interest bearing sight deposits: BE£2H2-BE£2HA2
20	Interest bearing sight deposits: BE£2HA2
21-24	Time deposits: BE£3H2
	Unincorporated Businesses
24A	Non-interest bearing sight deposits: BE£2H3B
24B	Interest bearing sight deposits: BE£2HA3B
24C-24F	Time deposits: BE£3H3B
25A	Individuals and Individual Trusts
26A	Non-interest bearing sight deposits: (BE£2H3A)– (BE£2HA3A)
27A-	Interest bearing sight deposits: BE£2HA3A
30B,	Time deposits BE£3H3A
31D	

Non-profit institutions serving households

32 Non-interest bearing sight deposits: BE£2H4-BE£2HA4

33 Interest bearing sight deposits: BE£2HA4

34A Time deposits: BE£3H4

Memorandum items for deposits

35A-35F The memorandum items for deposits are identified on a case by case basis, following consultation with the Bank. Generally, they will include products with rates that are not in line with market conditions, which would have a distortionary effect on the overall rate. The Bank also recognises that new products may come into the market, which may not be best captured in the main sector breakdown on the form; as such, the memorandum items may be used to monitor these products. Again, this will be decided on a case by case basis, following consultation with the Bank. Consultation may be initiated by the Bank, or alternatively reporting institutions may contact the Bank to clarify whether certain balances and their associated rates should be reported in the memorandum items.

Total

39 Include the sum of items 1 to 35F excluding lines 25A1, 26A1 31A1-31C1 (*Sight – of which current accounts*, *Time – of which FRBs*, *Time - of which NISAs*).

Loans and Advances

Central and Local Government

40 Include here BT£29A+BT£29B

Public Corporations

41-42A Include here BT£29C

UK MFIs - Banks (including Central Bank) and Building Societies.

46A Include here BT£21B+BT£23D + BT£23GB excluding intra-group balances.

Financial Corporations other than banks and building societies.

48 Include here BE£29DA1+BE£29DB1 excluding intra-group balances.

Private Non-Financial Corporations

49 Overdrafts: BE£29DA2

50 and 51A Other loans and advances: BE£29DB2

Unincorporated Businesses

52A Overdrafts: Include here BE£29DA3B

52E–52L Loans: BE£29DB3B

Individuals and Individual Trusts

Secured on dwellings

55A1-59A Include here BE item £29DB3A2. This item comprises secured loans to Individuals and individual trusts, apart from bridging loans, which attract the 50% weighting.

Of which: subsidised staff loans

60A Include here all mortgage loans in items 55A1-59A above which have been advanced to employees of your institution at a preferential rate of interest. Do not include unsubsidised staff mortgages.

Credit card credit

61A, 62A Include here BE item £29DB3A3. This should include ‘charge card’ lending (even if the outstanding balance has to be paid off in full at the end of each charging period).

Overdrafts

63A-63B Include here BE£29DA3A

Other loans and advances

64A-64D Include here all loans and advances to individuals and individual trusts not included in items 55A1 to 63B above, ie BE£29DB3A4

Non-profit Institutions Serving Households

68 Overdrafts: BE£29DA4

69 Other loans and advances: BE£29DB4

Memorandum items for loans

70-77 Non-performing loans; loans traded at discount; and preferential loans (but excluding intra-group loans). Where these loans represent a small proportion (eg less than 5%) of outstanding balances in any category, reporting institutions may include them either in the main sectoral analysis (items 40 to 69) or separately under memorandum items (70-77). If these loans represent 5% or more of outstanding balances in any category, they should be omitted from the main sectoral analysis – items 40 to 69 – and shown separately under memorandum items, to avoid distorting the overall rate on the line. Preferential 'Staff loans for lending secured on dwellings' are covered separately under item 60A, and should not be included in lines 70-77.

Total

78 Include the total of 40-77, excluding lines 49a, 50A-50B3, 51B-51D, 55A2-A3,and 60A, 61B-61D and 62B-62C, 62D and 63C (*PNFC overdrafts - of which for 'small and medium sized PNFCs, PNFC floating rate loans and fixed rate loans - of which to small and medium sized PNFCs, secured on dwellings – floating rate – of which SVR, of which BRT*, *secured on dwellings – of which staff loans, credit card – interest chargeable - of which balances transfer, purchases or cash withdrawal, credit card – no interest charged - of which incentive offer for balance transfer or purchases, credit card – fees and overdrafts - other fees*).

New business

79A-124A The range of instruments for which new business interest rates are required is limited to:

- Time deposits with fixed original maturity
- Loans and advances, with
  - Public corporations
  - Private non-financial corporations
  - Unincorporated businesses
  - Individuals and individual trusts
  - Non-profit institutions serving households

Fees on new loans to PNFCs and on new lending to individuals secured on dwellings are also collected in the new business section.