

# Form LN – Lending to UK Businesses

## Introduction

Form LN is designed to capture further detail of monetary financial institutions' lending to UK businesses. It is completed on a legal entity basis and provides three key types of information at a monthly frequency: *gross flows information*, meaning a decomposition of changes in lending to UK businesses into new lending, repayments and other changes in lending; a breakdown of stocks and flows of lending by *small, medium and large-sized businesses*; and an *industrial analysis* of lending flows.

This documentation consolidates and supersedes earlier guidance issued to reporters during the introduction of Form LN, and should be read in conjunction with relevant material in the General Notes and Definitions, and Forms BT, BE and AL, and WO definitions.

## Status of Form LN

Amended  
o/a Stats  
Notice  
2014/01

~~Form LN is non-statutory. This follows discussions with lenders and recognises that the requested data may not correspond to standard statistical definitions or be readily available from accounting source systems. Lenders requested to report Form LN are therefore individually asked to agree statements of *Agreed Reporting Standards* governing how they will report the data. The objective of *Agreed Reporting Standards* is to allow some pragmatism in how reporters should interpret the formal Form LN reporting definitions, subject to meeting minimum data quality standards. The Statistics Division believes that this approach is consistent with the principle of '*containing data suppliers' costs subject to the need to produce statistics that are fit for purpose*'.<sup>1</sup>~~

As of April 2014, the same data quality obligations are placed on Form LN as for the Bank's statutory forms.<sup>1</sup> This follows a period when Form LN was non-statutory and reporters were individually asked to agree statements of *Agreed Reporting Standards* governing how they reported the data. The objective of *Agreed Reporting Standards* was initially to allow some pragmatism in how reporters should interpret the formal Form LN reporting definitions, subject to meeting minimum data quality standards. Whilst Form LN is now statutory, these *Agreed Reporting Standards* will continue to be used in order to record whether reporters have agreed bilaterally with the Bank how to report certain parts of the form.<sup>2</sup>

## General information

The scope of Form LN is lending in all currencies to all UK businesses, non-profit institutions (and any other entities) classified to non-financial industry sectors, that is, any lending that would be recorded under lines 1 (agriculture, hunting and forestry) to 14 (recreational, personal and community service activities), inclusive, of Form AL.

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<sup>1</sup> Statistical Code of Practice, Section 6.1; Bank of England, 2010.  
[www.bankofengland.co.uk/statistics/about/code.htm](http://www.bankofengland.co.uk/statistics/about/code.htm)

<sup>2</sup> See [Statistical Notice 2014/01](#)

Lending is defined as loans and advances (including overdrafts and claims made under sale and repurchase agreements) and finance leases granted to UK businesses.

Inclusion and classification by industrial sector of borrowers that are within the scope of Form LN are subject to the same definitions as apply to Form AL.<sup>4</sup>

### Gross flows data

Form LN requires certain 'gross flows' of data to be reported. These are flows of new lending (or increases in lending) and of repayments of lending, excluding overdrafts. Gross flows, by definition, are understood to be non-negative quantities.

The Bank recognises that there can be difficulties in arriving at a standard definition of gross flows, and in measuring these data. One important issue is that measures of gross flows should in general exclude the renewal and expiry of existing facilities to the same customer, i.e. 'roll-overs'. For certain types of facilities involving a high frequency of advance and repayment of credit, it may be more practical to classify such lending on Form LN as 'overdrafts' on Pages 4 and 5, in which case only amounts outstanding data are required.

The recommended method for reporting gross flows data is the **Aggregated Increases Method**, described in more detail below. Reporters are asked, in any event, to indicate in their *Agreed Reporting Standards* document how they will report gross flows, to confirm whether they will apply the *Aggregated Increases Method*, and what approaches they might take to identifying and excluding roll-overs or any other issues.

### **Aggregated Increases Method**

*Aggregated Increases* (or *Aggregated Decreases* for repayments data) is the recommended method under *Agreed Reporting Standards* for determining gross lending and repayments data.

This method operates as follows. For all loan accounts with business counterparties (excluding overdrafts), gross lending during the month is determined as the aggregated increase across all such accounts in which credit balances have increased between the previous and current reporting dates, including all new loan accounts created within the period. Repayments are likewise determined as the aggregated amount of decrease across all loan accounts which have decreased between the two reporting dates, including the contributions from any closures of accounts.

New and closed accounts should be included in order to capture new loans, and full repayments of existing loans, respectively, in the gross lending and repayments data.

For foreign currency denominated accounts, aggregated increases and aggregated decreases should first be determined in their currency denominations and then translated into sterling at an appropriate exchange rate. Because this requirement relates to flows of lending, it is suggested (contrary to the normal rule) that the appropriate rate should ideally be determined as a period average rate. However, an end of period rate would suffice as an acceptable approximation.

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<sup>4</sup> Definitions: 'Form AL – Analysis of lending to UK residents'. See: [www.bankofengland.co.uk/statistics/reporters/defs/def\\_al.pdf](http://www.bankofengland.co.uk/statistics/reporters/defs/def_al.pdf)  
For reporting wef end-January 2016

Gross lending and repayments should each be reported with positive sign.

It is understood that under the *Aggregated Increases Method*, any changes in loan balances which are reversed within the month will not contribute to the calculated flows over the month. This is deliberate, given the objective of seeking to distinguish new term lending from roll-overs of existing credit or transactions in revolving credit.

Business size classifications: small, medium and large

Form LN requires an analysis by size of business. Formal definitions for *small*, *medium* and *large* business categories are based on annual debit turnover on the business account:

Small:	up to £1 million;
Medium:	£1 million to £25 million;
Large:	over £25 million.

Acceptable alternative approaches to business size classification

The Bank will however consider some flexibility in accepting alternative business size definitions from reporters subject to bilateral agreement under *Agreed Reporting Standards*.

**Amended o/a Stats Notice 2015/01** ~~Acceptable approaches can also include aggregated data based on reporters' small business banking units, or on identified business banking market segments for which reliable data are identifiable, and where these would give a reasonably good correspondence to the formal business size thresholds defined above.~~

~~If reporters maintain business banking units that correspond to materially different turnover thresholds, or to alternative business segment criteria, data reported according to these definitions may be acceptable if they are supplemented with additional information on estimated conversion factors that would enable the Bank to construct adjusted estimates equivalent to the formal thresholds. The Bank will accept a reasonable level of accuracy (as opposed to undue precision) for estimated conversion factors. Reporters taking this approach are asked to indicate this, and to commit to an annual review of estimated conversion factors, in their *Agreed Reporting Standards*.~~

~~For example, if the reporter is not the primary banker to the business, they may choose to report business lending data according to information they possess on businesses' trading turnover (rather than account turnover) for example, if this information determines the business banking unit or facilities that are offered to the business, or if only this information is readily available. Reporters taking this approach are asked to advise the Bank.~~

Not all types of borrower will straightforwardly correspond to the formal small / medium / large business classifications based on bank account turnover thresholds. There may be certain examples of borrowers, for instance a small subsidiary of a larger group, which in the view of a reporter would not be sensibly classified this way. Reporters can consider alternative or discretionary approaches to business size classification in such circumstances and consult the Bank accordingly.

One example is lending to property development vehicles. A property development vehicle may be

highly geared but have a small bank account turnover, or it may experience commencement or construction delays after funds have been drawn down. Reporters are advised in this case to prefer a medium or large size classification where this would seem justified in terms of the scale of the development. If necessary, lenders should classify property development vehicles according to the size of the advanced loan, using the same thresholds as for the turnover criteria – that is, property development loans would be classified to ‘small’ if under £1 million, ‘medium’ if between £1 million and £25 million, and ‘large’ if over £25 million.

**Amended o/a Stats Notice 2015/01** ~~In considering discretion, reporters should appreciate the priority of not distorting the small or medium business lending statistics with substantial loans to borrowers that might more naturally be classified to larger size categories than strictly warranted by the debit turnover criteria.~~

~~Reporters that extend negligible quantities of credit to a particular business size segment may report nil as a matter of routine, but should indicate this in their *Agreed Reporting Standards*.~~

#### Treatment of interest

**Amended o/a Stats Notice 2015/01** Form LN does not require flows of interest to be identified. In line with the General Notes and Definitions, amounts outstanding for lending excluding overdrafts, and for overdrafts, should, ~~(with the exception of lending secured on dwellings)~~ be reported exclusive of accruing interest receivable.

For the Form LN flows data, gross lending and repayments should be measured so as to include any capitalised interest. ~~Repayments should be measured after the deduction of any interest charges applied to the account, i.e. they should reflect the net reduction in principal.~~ It is intended that gross lending and repayments data as measured under the *Aggregated Increases Method* should be broadly consistent with this approach.

#### Overdrafts and revolving credit

Form LN distinguishes between ‘overdrafts’ (including other facilities of a revolving credit nature), and loans excluding overdrafts. Broadly speaking, the intention is to enable sensible definitions of ‘new lending’ and ‘repayments’ to be made in respect of term lending or other credit facilities with an infrequent turnover, while for overdrafts (or revolving credit facilities more generally), only amounts outstanding would require to be reported.

Any amounts of lending reported in the Form BE overdrafts boxes – 29DA2 (PNFCs), 29DA3B (unincorporated businesses) and 29DA4 (non-profit institutions serving households) – should be included as ‘overdrafts’ in Form LN, and excluded from the scope of amounts and flows reported on Pages 2 and 3.

Reporters should specify in their *Agreed Reporting Standards* which, if any, broader categories of credit other than Form BE overdrafts are to be recorded as ‘overdrafts’ in Form LN.

#### Syndicated lending facilities

Syndicated lending involves several banks agreeing to provide a loan facility to the same borrower. Potentially, one or more of the lead banks in a syndicate will have advanced the loan to the borrower before contributions from all participating banks have been arranged or received. In reporting Form

LN, the principle is that funds provided to the borrower should be recorded as gross lending, while transactions in the syndication process between banks should be recorded as loan sales or purchases.

Lending to UK businesses (on the Form AL definition) under syndicated lending facilities should be included as part of Form LN. Advances of funds to the borrower, such as by the lead or arranger banks in the syndicate, should be reported under 'gross lending'. Subsequent novation (or other transfers) of loans to other participating banks should be recorded as sales of loans by the originating bank, and as purchases by the participating bank.

Repayments should only capture repayments of loans by a borrower to the reporting bank.

### **Levels and flows reconciliation**

The scope of Page 1 is lending to businesses. Further, more detailed, guidance on scope of lending is provided at Annex 1 (below).

The objective of Page 1 is to record a flows analysis of lending other than overdrafts so as to resolve the movement in amounts outstanding into gross lending, repayments and other changes, namely net loan sales, write-offs and any other adjustments. For certain types of credit, such as conventional term loans, these definitions will be straightforward to interpret. For other types of credit of a revolving nature, they will be less straightforward, as it may be difficult to distinguish between new lending and roll-overs of existing lending. Actual roll-overs of credit facilities, where these can be identified, should be excluded from gross lending and repayments.

The recommended approach to calculating gross lending and repayments (other than overdrafts) for Form LN is the *Aggregated Increases Method*, as defined above.

**Amended** Data reported on business size lines on Page 1 (lines ending in A, B and C) should equal the total of  
**o/a Stats** the industry breakdown reported on in the other sections. The formal definitions are;

**Notice** Small

**2015/01**

Annual business account debit turnover less than £1 million.

Medium

Annual business account debit turnover between £1 million and £25 million.

Large

Annual business account debit turnover over £25 million.

### **1 Amount outstanding at previous reporting date**

The amount outstanding at the previous month-end. This should be equivalent to the sum of items 1 – 14 for loans and advances, for the corresponding currencies, on Form AL, less any amounts attributed to overdrafts, which are reported on pages 4 and 5.

Reporters should ensure carried-forward and brought-forward consistency in their reporting of LN 1

and LN 7 over successive reporting periods. Any inconsistencies between LN 1 and LN 7 should be resolved with appropriate revisions to the past or current data as required.

## **2 Gross lending in the month**

Gross lending to those UK businesses for which levels are reported under items 1 – 14 for loans and advances on Form AL. Following Form BT this includes loans and advances to UK businesses excluding investments in marketable or potentially marketable negotiable paper, equity or fixed interest instruments.

Exclude lending on overdrafts. Also exclude loans and advances extended and repaid during the reporting period (i.e. within the calendar month for which data are being reported).

Refer to the guidance above on *gross flows data* and the *Aggregated Increases Method*.

## **3 Net loan sales (-), purchases (+) and other transfers during the month**

**Amended o/a Stats Notice 2015/01** Net flows of loan sales or purchases that affect the value of items 1-14 for loans and advances on Form AL. ~~Transfers of loans to banking resolution agencies (such as NAMA, in Ireland) should be included under this heading.~~

Securitisations where the loans continue to be reported on balance sheet (as per section 3(g) of the General Notes and Definitions) should *not* be included.

## **4 Repayments in the month**

Repayments of lending by those UK businesses for which levels are reported under items 1 – 14 for loans and advances on Form AL.

**Amended o/a Stats Notice 2015/01** Repayments of overdrafts are excluded. Also exclude loans and advances extended and repaid during the reporting period (i.e. within the calendar month for which data is being reported). Interest payments (other than capitalised interest) and write-offs should be excluded.

Refer to the guidance above on *gross flows data* and the *Aggregated Increases Method*.

## **5 Write-offs**

The objective of this heading is to ensure that any reductions in amounts outstanding that are due to write-offs are separately recorded, and not included as part of repayments.

Following Form WO guidance, this heading should capture any changes in the value of loans and advances resulting from a reassessment of the creditworthiness of a debtor by the reporting institution that are reflected in amounts outstanding data reported in LN 7. Complete write-offs should be included, as should partial write-offs. Write-offs should be reported as a positive figure. 'Write-ons' should also be reported, as a negative figure.

## **6 Other adjustments to the amount outstanding: reductions (-) and increases (+)**

All other adjustments to the outstanding levels of loans and advances including, for example, currency revaluations.

**7 Amount outstanding at current reporting date**

The amount outstanding at the month-end. This should be equivalent to the sum of items 1 – 14 for loans and advances, for the corresponding currencies, reported on Form AL, less any amounts attributed to overdrafts, which are reported in box 8.

**8 Balances of overdrafts drawn**

**Amended a/o Stats Notice 2015/01** Balance of overdrafts drawn: report the amount of outstanding overdrafts at the end of the reporting period; include both authorised and unauthorised amounts.

**Gross lending, repayments and amounts outstanding**

This section requires separate analyses of the gross lending and repayments flows data and amounts outstanding data by business size, and by the Form AL high level industry categories.

**11 to 24, Analysis of gross flows by industry sectors.**

Form LN boxes 11 – 24 correspond to Form AL boxes 1 – 14, respectively.

**Balances of overdrafts drawn**

Balance of overdrafts drawn: report the amount of outstanding overdrafts at the end of the reporting period; include both authorised and unauthorised amounts.

Following Form BE, the definition of overdrafts includes debit balances on accounts which, if in credit, would be classified as deposits. Subject to *Agreed Reporting Standards*, as discussed above, reporters may include broader categories of short term revolving credit facilities under this section. Reported amounts should correspond to actual drawn amounts of credit (not facilities limits).

Amounts outstanding should be analysed by business size and by industrial classification headings.

**Further guidance**

Further guidance on all aspects of Form LN may be obtained from the Bank using the Helpdesk number (Tel. 020 7601 5360).

## **Annex 1: Additional reporting information**

Following Form BT definitions, the scope of lending should also include the following:

- a) Loans made under conditional sale agreements and hire-purchase contracts, even though legal ownership of the goods is retained by the credit grantor until final payment is made.
- b) The reporting institution's own acceptances which it has also discounted. Exclude however those subsequently rediscounted and those drawn by non-resident banks. Own acceptances discounted should be shown as advances to the party who has asked for the acceptance credit to be opened, that is, the issuer of the bill which has been accepted.
- c) Advances purchased by or assigned to the reporting institution under a transferable loan facility or similar arrangement.
- d) Include the net book value of leases which your reporting institution considers as finance leases of assets beneficially owned and leased out by the reporting institution. A finance lease is defined as one in which an asset is leased for a single fixed contractual period during which all, or substantially all, of its cost is recoverable by the lessor (even though the asset may subsequently continue in operation for an unspecified further period), or one which is classed as a finance lease under the relevant accountancy standards. Do not however include any assets leased in under finance leasing arrangements, or any leased out under operating leases. Include participations, where the reporting institution itself is involved in joint leasing ventures and carries its share of the lease on its books. Similarly, if the reporting institution participates in a syndicated leasing agreement, include the reporting institution's participation for its own account.
- e) Where the reporting institution participates in (or acts as manager or co-manager of) a loan financed by more than one institution, include only the reporting institution's participation for its own account. Include under this item participations in syndicated loans. which are negotiable but which in practice are not easily marketable.
- f) Where the reporting institution engages in factoring or invoice discounting, any debts acquired should be classified here as lending to the sector from which the debts originated, except in the case of non-recourse factoring. In this case, the exposure is to the sector to which the invoice was issued, and should be classified as lending to that sector.