

Article

Enhanced financial accounts (UK flow of funds) - Investment and other financial institutions (IOFIs)

New experimental data for investment and other financial institutions (IOFIs) sectors, which include all financial activities outside of banking, insurance and pension funds

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1 . Main points

- The UK investment and other financial institutions (IOFIs) sub-sectors' (S.123 to S.127) experimental statistics were compiled using a wide variety of sources, such as the Office for National Statistics (ONS) Financial Services Survey 266 (FSS 266), ONS MQ5 Trusts surveys, investment industry sources, commercial data sources, the Bank of England and the Bank for International Settlements. The IOFIs experimental statistics should therefore be considered a mosaic created from multiple complementary and competing data sources rather than as something that relies on a small number of sources.
- It is important to emphasise that these are experimental statistics that have been produced in isolation of the normal national accounts production and quality assurance process. There are a number of caveats that users of the data should consider.
- The data are not consistent with currently published UK financial account statistics, such as the UK Economic Accounts or the quarterly or annual national accounts, for example, and should not be used in place of the regularly published national statistics. The data have been produced outside of current processing of the national accounts, and the data will be revised prior to inclusion in any future annual national accounts. We will continue to evaluate and quality assure these experimental statistics and other new data with the aim of incorporating them into the UK National Accounts over the coming years. These experimental estimates may be subject to change as we develop, quality assure and integrate these data.
- These experimental statistics suggest the investment and other financial institutions (IOFIs) sectors are the third largest holders of financial assets in the UK, after the banking and rest of the world sectors, with assets of £8.8 trillion in 2017, some 50% higher than the equivalent Blue Book 2019 data of £5.8 trillion.
- The IOFIs assets of £8.8 trillion are divided between investment funds (S.123 to S.124) assets of £1.5 trillion and other financial institutions (S.125 to S.127) assets of £7.3 trillion.
- Other financial intermediaries (S.125) had the largest assets within IOFIs, with assets of £3.5 trillion; this was made up of activities such as securities dealing and non-bank lending.
- The IOFIs sectors' assets of £8.8 trillion in 2017 were equivalent to approximately three times the pension funds sector's assets and more than four times the insurance corporations sector's (S.128) assets.
- The new experimental statistics suggest that the UK's financial sector had financial assets approximately 15% larger in 2017 than previously estimated; this suggests that the UK's financial sector, when measured by the size of its financial balance sheet, is a larger contributor to the UK's balance sheet than previously estimated.
- The main driver behind the approximate £3 trillion increase in the UK financial sector's assets (and slightly smaller increase in liabilities) has been the development of better data sources for the IOFIs sectors.
- The use of commercially sourced data has provided new experimental estimates for non-bank lending (other financial institutions) to households.

2 . Introduction

The investment and other financial institutions (IOFIs) sectors encapsulate all financial activities outside of the banking, insurance and pensions sectors. The IOFIs sectors cover a wide variety of financial activities such as shadow banking or non-bank financial intermediation, holding companies, investment funds, financial auxiliaries, securities dealing, non-bank lending, and other financial activities.

For the first time, information on the IOFIs sectors has been synthesised using data from a variety of competing and complementary data sources. For example, official surveys and industry and commercial sources, to provide an enhanced overview of this sector that does not rely on single data sources.

The synthesised balance sheet data provide a more holistic and detailed view of the IOFIs sectors than is currently available from the UK's Blue Book national accounts publication.

The new data provide insights on IOFIs' financial activities and financial instruments examples include holding companies' non-bank lending, derivatives, and money market fund shares or units.

3 . Developing experimental balance sheet statistics and data sources

In May 2018, the Office for National Statistics (ONS) published an [article outlining its plans to develop experimental balance sheet statistics and data sources](#) for the following financial sectors:

- investment funds¹
- non-bank borrowing and lending²
- financial auxiliaries³
- holding companies⁴

Investment funds comprise money market funds (MMFs) and non-money market investment funds (NMMFs). MMFs are often regarded as close substitutes for bank deposits. MMFs are used by institutions primarily to manage their liquidity. MMFs invest in short-term debt securities such as treasury bills, certificates of deposit, commercial paper and long-term debt securities with a residual short-term maturity. NMMFs, by contrast, typically have a longer holding period and are used to earn an investment return. Unlike MMFs, NMMFs are not close substitutes for bank deposits and so are unsuitable for liquidity management purposes. The ratio of NMMFs to MMFs assets was around 70:1 in 2017.

Non-bank borrowing and lending includes securities dealers and finance companies. Financial auxiliaries cover financial activities that do not directly involve any borrowing or lending, for example, stock exchanges, investment fund managers and brokers arranging loans but not lending the money themselves. Holding companies hold the assets (owning controlling levels of equity) of a group of subsidiary corporations, and their principal activity is owning the group. They do not provide any other service to the businesses in which the equity is held (that is, they do not administer or manage the subsidiaries).

Following the initial [May 2018 article](#), subsequent articles examined these sectors in detail and provided experimental estimates of the assets for these sectors, many of them for the first time, using mostly single sources.

Some of the data from the earlier ONS articles informed the UK's annual submissions to the international Financial Stability Board (FSB). The FSB monitors shadow banking or non-bank financial intermediation activities at a global level in order to reduce the risk of another global financial crisis.

The experimental statistics published in this article are the ONS's first attempt at providing an overview of sector balance sheets using multiple sources rather than a single source. These experimental balance sheet statistics will be updated in late 2020 following further evaluation of new and existing data sources and ongoing stakeholder feedback. The experimental statistics in this article should therefore be viewed as work in progress and are likely to change. The main point to note is that as experimental statistics, these experimental balance sheet statistics have not been through the usual Blue Book quality assurance and balancing processes.

Notes for: Developing experimental balance sheet statistics and data sources

1. Investment funds cover the European System of Accounts 2010 (ESA 2010) national accounts sub-sectors, S.123 Money market funds and S.124 Non-money market investment funds.
2. ESA 2010 sub-sector S.125 Other financial intermediaries.
3. ESA 2010 sub-sector S.126 Financial auxiliaries.
4. ESA 2010 sub-sector S.127 Captive financial institutions and money lenders.

4 . Analysis

One of the main improvements in recent UK financial data has been the release of experimental statistics from the recently developed [Office for National Statistics \(ONS\) Financial Services Survey \(FSS 266\)](#). The FSS 266 covers most, but not all, of the financial activities outside of investment funds (for example, non-bank borrowing and lending, financial auxiliaries, and holding companies). The FSS 266 estimates that the financial activities sampled had financial assets of approximately £5 trillion.

The experimental statistics published in this article increase the estimated assets by combining data from non-FSS 266 sources with FSS data, such as from the Bank of England (BoE), Equifax and the Bank for International Settlements (BIS). This combination has increased the total estimated assets of these financial sub-sectors (S.125 to S.127) to £7.35 trillion. This increase in the financial assets of these sub-sectors is responsible for most of the approximately estimated 15% increase in the UK's financial sector's financial assets and suggests that the UK's financial sector, when measured by the size of its financial balance sheet, is a larger contributor to the UK's balance sheet than previously estimated. The approximate £3 trillion increase in the assets of these sub-sectors has been accompanied by a slighter smaller increase in liabilities of just under £2.9 trillion.

The two largest contributors to assets sampled by the FSS 266 are securities dealers and non-bank holding companies.

The previously published FSS 266 experimental statistics on non-bank holding companies have been supplemented in this article with data from bank holding companies, increasing total estimated assets for all holding companies to nearly £3 trillion.

In terms of investment funds, this workstream has developed experimental statistics on UK domiciled money market funds (MMFs). It also provides experimental statistics on UK holdings of MMFs, both UK domiciled and overseas domiciled. Although the assets of UK domiciled MMFs are modest, UK investors are large investors in overseas MMFs. MMFs are one of the main contributors to the international Financial Stability Board (FSB) estimates of global shadow banking or non-bank financial intermediation.

In terms of non-money market investment funds (NMMFs), the experimental statistics published in this article are higher than previously published by the ONS at over £1.4 trillion, an increase of about £90 billion in 2017.

These experimental estimates have been compiled using new methods and sources (for example, not only using ONS investment funds survey data (MQ5 Trusts surveys) but also data from other sources such as the European Fund Asset Management Association (EFAMA) and the Investment Association (IA)). EFAMA's data on total assets, covering both undertakings for collective investments in transferable securities (UCITS) and alternative investment funds (AIFs), has been combined with holdings data from the other sources. The experimental statistics in this article should therefore be viewed as work in progress and are likely to change.

Further work is planned to increase the granularity and improve the quality and coverage of counterparties' relationships ahead of the implementation of the flow of funds into the UK National Accounts in 2021 and beyond.

5 . Related links

[Economic Statistics Transformation Programme: enhanced financial accounts \(UK flow of funds\) – shadow banking introductory article](#)

Article | Released 1 May 2018

This article introduces our plans to improve coverage of the financial subsectors S.123 to S.127 using the Financial Services Survey (FSS) and other sources.

[Economic Statistics Transformation Programme: enhanced financial accounts \(UK flow of funds\) – shadow banking, money market funds](#)

Article | Released 8 May 2018

This is the first in the series of previously announced financial sub-sector articles for financial sub-sectors S.123 to S.127 and introduces S.123 money market funds (MMFs).

[Economic Statistics Transformation Programme: enhanced financial accounts \(UK flow of funds\) – Financial Services Survey 266 - quarterly return of assets and liabilities](#)

Article | Released 2 July 2018

Experimental statistics from the Office for National Statistics (ONS) FSS 266 quarterly return of assets and liabilities.

[Economics Statistics Transformation Programme: enhanced financial accounts \(UK flow of funds\) – Shadow banking – S.124 non-money market investment funds](#)

Article | Released 2 July 2018

Summarises the data currently available for traditional investment funds.

[Financial Stability Board's Global Monitoring Report on Non-Bank Financial Intermediation 2018](#)

Report | Released 4 February 2019

Presents the results of the Financial Stability Board's annual monitoring exercise to assess global trends and risks from non-bank financial intermediation.

[Economic Statistics Transformation Programme: enhanced financial accounts \(UK flow of funds\) - Financial Services Survey 266 - return of assets and liabilities, Quarter 4 2018](#)

Article | Released 14 June 2019

Presents experimental statistics from Quarter 4 (Oct to Dec) 2018 from the FSS 266 for other financial institutions.