Statistical Reporting of Securitisations

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From January 2010 data onwards, the Bank will change the way banks and building societies treat securitisations in their statistical reporting. This article outlines those changes, and the effects they will have on data published by the Bank of England.

Background

In September 2007 the Bank of England undertook a user consultation setting out proposals to modify the measurement of broad money in the United Kingdom1. The consultation article proposed that securitisation special purpose vehicles (SPVs) should be excluded from the money-holding sector (along with other types of intermediate ‘other financial corporations’2), and illustrated the effects of securitisation SPVs on monetary aggregates in qualitative terms. Securitisations can have large effects on both M4 and M4 lending (M4L), and have not been reported uniformly by all monetary financial institutions (MFIs) in the past. Some MFIs have reported securitised assets off balance sheet, while others have reported them on balance sheet; on balance sheet reporting has become more prevalent as a result of more institutions adopting International Financial Reporting Standards.

Despite the near-closure of securitisation markets since the second half of 2007, securitisations have become increasingly relevant to monetary statistics. The virtual closure of the securitisation markets has led to more MFIs retaining large proportions of mortgage-backed securities issued by their related securitisation SPVs. That partly reflected the fact that MFIs have been able to use these securities, and other types of asset-backed securities, as collateral to obtain funding from several central banks.

Against this background, the Bank has introduced a revised statistical reporting scheme for securitisations, in consultation with the UK banking system. This will ensure that securitisations are reported on a consistent basis across all reporters, and allow more detail to be collected on securitised loans and transactions between MFIs and their securitisation SPVs.

Current Treatment

Traditionally, MFIs have reported securitisations off balance sheet (although as mentioned previously, several MFIs do now report these on balance sheet). This means that – when a securitisation happens with a UK-resident SPV – the securitised loans move off the balance sheet of the MFI and onto the balance sheet of the SPV, causing a reduction in the flow and the amount outstanding of M4L3. Because this is not a genuine fall in private sector debt, the Bank also publishes a series called M4 lending excluding the effects of securitisation and loan transfers (M4Lx). This is based on M4L, but the value of loans moving off balance sheet is added back to the flow and the amount outstanding of M4L. If there is a securitisation to a non-resident SPV, the flows of M4L and M4Lx are adjusted, but not the amounts outstanding4.

Conceptual Changes

From January 2010 data onwards, all loans that have been securitised by MFIs will be included on these institutions’ balance sheets for statistical reporting purposes. Some institutions have already been reporting securitisations on balance sheet, so their reporting will not change. However, other institutions will be bringing back on to their balance sheets loans that have been securitised in the past. When these loans come back on balance sheet, there will also be an additional liability to the SPV, to balance out the increase in loans (on the asset side of the balance sheet). Overall, this will lead to a level shift in both sides of MFIs’ balance sheets.

The reporting changes therefore mean that for data from January 2010 onwards, published MFI (M4L) lending series will not be affected by securitisations. But securitisations will instead have an effect on deposits series, as the MFI involved will report an increased liability to the SPV. (This effect exists prior to 2010 data for those institutions that have already reported securitisations on balance sheet.)

At the same time, MFIs will provide information on the amount of their loans that have been securitised to their own SPVs, as well as on liabilities to, and claims on, these entities. A sectoral breakdown of securitised loans will be provided, and data will be reported separately for positions with UK-resident SPVs and non-resident SPVs.

Although these additional data showing details of securitisation transactions will be collected from January 2010 data onwards, new series will not be published....
immediately, to allow the Bank time to assess the quality of this new information first. (See also the Future Changes section below.)

**Effects of Grossing up on Published Data**

Many statistical releases and Bankstats tables contain data on MFIs’ lending and deposits business, and so this change in reporting method will affect numerous series. As MFIs bring securitised loans back onto their balance sheet, along with an offsetting liability (thereby ‘grossing up’ their balance sheet), this will cause a one-off level shift in various published series in January 2010. The change will be apparent in ‘amounts outstanding’ series, but adjustments will be placed to ‘changes’ (or flows) series to ensure that these continue to reflect genuine business movements. Level shifts of over £1bn will be indicated by footnotes.

The monetary aggregates M4 and M4L will both be affected by these level shifts, but adjustments will be placed so that the flows are not affected. The key measure of broad money (M4 excluding intermediate other financial corporations, or OFCs) will not be affected, since deposits from SPVs are already excluded from this measure. On the lending side, M4L replaces M4Lx as the key series to monitor the UK private sector’s sterling borrowing from MFIs – for further details on changes to M4Lx, see “Table A4.3” below.

**Effects in individual Bankstats tables**

In addition to the above general effects, several tables in the monthly Bankstats publication will show more specific effects.

**Table A2.2.3:** The series for M4 excluding intermediate OFCs will not be affected by this reporting change, since deposits from SPVs are already excluded from this measure.

**Tables A4.1 – A4.2:** As mentioned above, from January 2010 onwards, M4 lending (M4L) will no longer be affected by any loans moving on or off balance sheet as part of a securitisation, bringing the definition of M4L closer to that of M4Lx (see next paragraph). Historically, securitisations have caused volatility in the M4L flows series, and so the behaviour of M4L may become quite different from January 2010 onwards. Conversely, M4 flows may become more volatile because of the effects of securitisations on liabilities to SPVs (which are part of the OFC sector, to the extent that they are UK-resident).

**Table A4.3:** For data prior to 2010, M4 lending excluding the effects of securitisations and loan transfers (M4Lx) is defined as sterling lending by UK MFIs to the UK private sector, with adjustments made for any such lending that has been securitised or transferred to another UK-resident company. Additionally, if there is a securitisation to a non-resident SPV, the flow of M4Lx is adjusted for this, but the securitised loans are not included in the amount outstanding of M4Lx.

From January 2010 onwards, the definition of M4Lx amounts outstanding series will include loans that have been securitised to non-resident SPVs. On its own, this causes an increase in the amounts outstanding. But as well as the effect of the definitional change, there will be a level shift (likely to be a decrease) due to more accurate data for calculating M4Lx becoming available. The Bank of England has so far estimated the amount outstanding of loans that have been securitised or transferred to UK-resident companies. These estimates were the result of the accumulation of securitisations flows in the past, and are therefore likely to have been an overestimate, since they did not take into account the fact that repayments were made on loans that had been securitised. For securitisations conducted several years ago, the amount of loan repayments made is likely to be significant. From January 2010 onwards, these estimates will be replaced by the exact amount of lending that has been securitised to UK-resident SPVs.

MFI transfers of loans to other UK-resident and non-resident companies via outright sales have so far been treated indistinguishably from securitisations, implying that separate figures for loan transfers are not available. Such transfers have typically been small in value and uncommon, but they will continue to cause a difference between M4L and M4Lx. The estimate for the amount outstanding of transferred loans in January 2010 will be set to zero, with future estimates based on any loan transfers made from January 2010 onwards.

**Tables A5.1 – A5.6:** For the lending to individuals data, loans that have been securitised to UK-resident SPVs are already included in the lending figures prior to 2010, as part of lending by ‘Other Specialist Lenders’. In January 2010, these loans will switch from lending by Other Specialist Lenders to lending by MFIs. Loans that have been securitised to non-resident SPVs in the past are not included in pre-2010 data, so there will be some increase in total lending to individuals to account for these loans being brought back on MFI balance sheets.

**Table A5.7:** This currently covers both securitisations (whereby loans move between the balance sheet of an MFI and the balance sheet of an SPV) and loan transfers (whereby one lender sells a portion of their loan book to another institution, who could either be a subsidiary or an unconnected counterparty). From January 2010, only loan transfers will be included in this table. This may make it more likely that this figure will have to be suppressed each month due to confidentiality constraints. In due course, the Bank will review whether to continue publishing this table.

**Table B1.4:** This table will be published for the first time for January 2010 data. Compared to data previously published in table B1.2 and B1.3.1, there will be a grossing up effect due to MFIs bringing securitised loans, and offsetting liabilities, on balance sheet.

Data on banks’ Eligible Liabilities were previously reported in Table B1.2, but when the new reporting scheme comes into effect, Eligible Liabilities will no longer

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5 For more details, please see [http://www.bankofengland.co.uk/statistics/ms/articles/artjan10.pdf](http://www.bankofengland.co.uk/statistics/ms/articles/artjan10.pdf)
longer be calculated using statistical data⁶, and so will not be published in Table B1.4. Data on all MFIs’ Eligible Liabilities will continue to be published on the Statistical Interactive Database, with code RPMBU2P.

**Table B3.1:** From January 2010 onwards, interest receivable on loans and advances, and interest payable on deposits, will include interest receivable on securitised loans, and interest payable on the offsetting liability to the SPV, and so will show a level shift.

**Table B4.1:** In January 2010, both other investment income receipts and other investment income payments are expected to increase, as loans securitised through non-resident SPVs, and an offsetting liability to the non-resident SPV, come back on balance sheet. Amounts receivable on trade in services will also increase to reflect any additional FISIM (Financial Intermediation Services Indirectly Measured) generated on these loans and deposits, but amounts payable on trade in services will not be affected by this reporting change.

**Table C2.1:** As securitised loans will be brought back on to MFIs’ balance sheets in January 2010, write-offs on securitised loans will also be reported in Table C2.1 at the same time. The series in Table C2.1 may therefore increase from 2010 onwards. Amounts outstanding of both secured lending and credit card lending by MFIs are expected to increase significantly when securitised loans are brought back on balance sheet, and so write-offs of these types of loans may be particularly affected in future periods.

**Table G1.4:** As MFIs’ balance sheets will include both securitised loans, and an offsetting liability to the relevant securitisation SPV, from January 2010 onwards, the interest on these loans and deposits will also be reflected in this table. If securitised loans have significantly different interest rates from loans that have not been securitised, this will cause a level shift in the relevant series for interest rates on outstanding sterling loans by UK MFIs. Similarly, the interest rates on outstanding sterling deposits from OFCs may also be affected by the inclusion of the new liabilities to SPVs. New business rates will not be affected.

**Future Changes**

As mentioned previously, the January 2010 reporting changes mean that extra data will be collected on the amount of loans that have been securitised, and on liabilities to and deposits from securitisation SPVs. Once these are of good quality, the Bank will consider whether to publish additional breakdowns or tables containing these series, and whether to adapt the UK measures of money and credit to take the new data into account. A second Bankstats article will be published in due course covering these topics.

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⁶ For more details, please see Statistical Notice 2009/08: http://www.bankofengland.co.uk/statistics/reporters/snotice/sn200908/sn200908.htm