The Bank of England *Bank Liabilities Survey*

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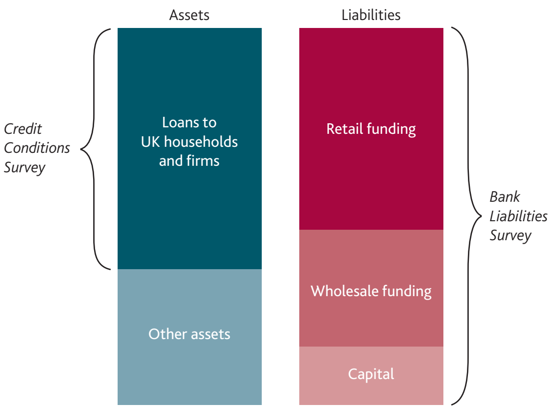
In order to improve understanding of the role of bank liabilities in driving credit and monetary conditions, the Bank of England began conducting a formal *Bank Liabilities Survey* last year. This survey is intended to supplement the data collected on the asset side of bank balance sheets by the Bank of England's quarterly survey of credit conditions, which was introduced in 2007. The first results of the *Bank Liabilities Survey* will be published on 26 March. This article introduces the survey.

Developments in banks' balance sheets are of key interest to the Bank of England in its assessment of the economy. Changes on the 'assets' side of the balance sheet, which includes bank loans to households and companies (**Figure 1**), have implications for the provision of credit within the economy. And changes in the price, quantity and composition of banks' 'liabilities' — which include bank deposits made by households and companies as well as funding raised by banks in wholesale debt and equity markets — may affect banks' willingness or ability to lend, and the price of their lending.

Figure 1 Stylised bank balance sheet[a]



(a) The figure is illustrative and is not based on balance sheet data.

The Bank of England introduced a regular survey of credit conditions in 2007 to improve its understanding of lending to households and firms by banks, building societies and other specialist lenders (henceforth referred to as 'banks').[2] The introduction of such a survey followed international precedent, with similar exercises already undertaken by the Federal Reserve, the European Central Bank and the Bank of Japan. Since its introduction, the *Credit Conditions Survey* (*CCS*) has been a valuable source of information for the Monetary Policy Committee as well as being widely used by market participants and economic commentators.

An improved understanding of developments in banks' liabilities would supplement the data collected on the asset side of bank balance sheets by the *CCS*. It would allow for a fuller understanding of developments in monetary and credit conditions, which is vital for both the Bank's price stability and financial stability objectives.

There are several advantages to formalising the collection of information on developments in bank liabilities in a regular survey. By including a wide and consistent sample of banks over time, the survey should produce information that can be used in a range of analyses. By including questions on banks' expectations for the coming three months, the Bank will be better able to assess how developments in banks' liabilities unfold, relative to existing plans. And other survey questions will shed light on the factors driving current and expected developments in banks' liabilities.

The Bank of England consulted with the major UK lenders and industry bodies during 2012 about the introduction of a *Bank Liabilities Survey* (*BLS*). Lenders and industry bodies were strongly supportive of the initiative. In November 2012, following a series of trial surveys, the Bank signalled its intention to begin publishing the data collected in a public notice.[3] The first *Bank Liabilities Survey* report is due to be published on 26 March 2013.

Unlike surveys of credit conditions, there is little international precedent for a survey focused on the liability side of banks' balance sheets. The *CCS* and equivalent surveys of credit

(1) The authors would like to thank Matt Maxfield for his help in producing this article.
(2) See Driver (2007).
(3) See www.bankofengland.co.uk/publications/Pages/other/monetary/bls/default.aspx.

conditions from other central banks allow some partial identification of the influence of bank funding conditions on credit supply. But the information available is relatively limited.

This article discusses why a survey of bank liabilities may be useful in principle. It then goes on to describe the main features of the survey ahead of the publication of the first set of survey data.

Why launch the *Bank Liabilities Survey*?

The importance of banks' balance sheets

Developments in banks' balance sheets have important implications for the wider economy. The banking system's **assets** are of interest, as banks and building societies play a central role in the provision of credit to companies and households (**Figure 1**). For example, increases in the availability of credit — via lower interest rates charged on loans, looser terms or an increase in the quantity of credit — can help to boost housing market activity and business investment.

Banks' **liabilities** also have important implications for monetary policy and financial stability. Banks fund themselves by using different types of liabilities. First, they can raise retail deposits from households or companies. Second, they can borrow in wholesale markets from a range of investors including other banks, asset managers, hedge funds and sovereign wealth funds. Third, they can issue capital instruments of various types as a source of financing; this acts as a buffer against losses incurred on the asset side of their balance sheets. Banks' capital positions are also an important determinant of how investors perceive banks' resilience (**Figure 1**).

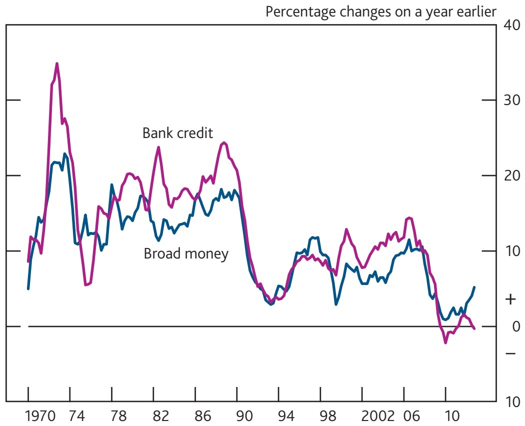
In some cases, changes in banks' liabilities have direct effects on economic activity. Higher deposit rates, for example, may lead households to save more. The price, quantity and composition of banks' liabilities will have important implications for the price, quantity and composition of their assets, and their willingness to lend. For example, if banks face higher funding costs, this will typically be passed on to households and corporates by setting higher interest rates on loans.

A better understanding of banks' liabilities therefore allows for a fuller analysis of a range of economic issues. The remainder of this section explores how the *Bank Liabilities Survey* could be used, with the aid of two examples. The first example looks at how banks' liabilities can be used to understand money and credit growth; the second looks at how the survey can improve the understanding of changes in bank funding conditions.

Understanding money and credit growth

The *BLS* should help to explain changes in money growth. For example, after falling markedly following the intensification of the financial crisis in 2007, money growth has picked up a little (**Chart 1**). There are a number of candidate explanations for that pickup, including: the influence of the Bank's asset purchase programme;[1] increased demand for deposits on the part of households and companies; and a strategic decision by banks to boost the share of deposits in their total liabilities, thereby reducing their reliance on wholesale funding, perhaps in part reflecting regulatory guidance. It is difficult to isolate the influence of each factor using publicly available data alone. So a key aim of a bank liabilities survey would be to improve understanding of the factors driving changes in deposits.

Chart 1 Broad money and credit(a)



(a) The series are constructed using M4 and M4 lending growth (excluding securitisations) prior to 1998 Q4, and growth in M4 and M4 lending excluding intermediate other financial corporations thereafter.

The *BLS* should also supplement the *CCS* in explaining changes in credit provision. Growth in bank credit fell sharply in late 2008–09, and the subsequent pickup was muted (**Chart 1**). The *CCS* provides some indication of the extent to which those developments reflect demand or supply factors. For example, the survey responses suggest that credit availability contracted markedly in 2007–08 and that tighter wholesale funding conditions were a significant drag on secured credit availability during that period (**Table A**). It is not clear, however, the extent to which that reflects developments across different sources of funding, for example, across different currencies or maturities of funding. Nor is it possible to isolate the influence of the changing *cost* of funds relative to the *availability* of funds, including any non-price restrictions. The *BLS* would therefore help improve the Bank's understanding of the contributions from these different factors.

Understanding bank funding conditions

In addition to understanding how developments in bank liabilities affect the provision of credit, it is useful, more

(1) For a discussion of this issue, see Bridges, Rossiter and Thomas (2011) and Butt *et al* (2012).

Table A *Credit Conditions Survey*: household secured credit availability and factors driving availability[a]

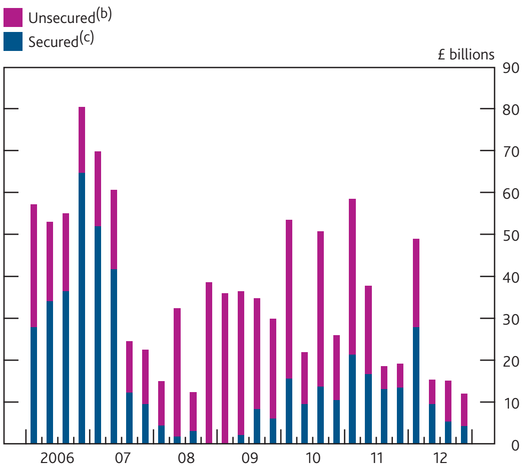
	Averages		
	2007–08	2009–10	2011–12
Credit availability	-26	2	8
Factors affecting credit availability			
Changing economic conditions	-23	-3	-2
Market share objectives	6	0	9
Changing appetite for risk	-21	-6	3
Tight wholesale funding conditions[b]	-29	-2	-8
House prices[b]	-52	1	-8

Source: Bank of England *Credit Conditions Survey*.

(a) Net percentage balances. Averages of quarterly data.
(b) Series began in 2008 Q1.

generally, to understand the reasons behind developments on the liability side of bank balance sheets. Such developments are of particular interest given the Bank's financial stability objective. For example, following robust bank funding issuance volumes in 2011 H1, strains within financial markets intensified in 2011 H2 amid euro-area concerns. At that time, banks' issuance of longer-term debt in wholesale public markets was subdued, with a trend towards an increased proportion of secured issuance, such as asset-backed securities and covered bonds (**Chart 2**).(1)

Chart 2 Longer-term debt issued by the major UK lenders in public markets[a]



Sources: Dealogic and Bank calculations.

(a) Data are as at 15 February 2013. Data are shown at a quarterly frequency. Includes debt issued by Bank of Ireland, Barclays, Co-operative Financial Services, HSBC, Lloyds Banking Group, National Australia Bank, Nationwide, Northern Rock, Royal Bank of Scotland and Banco Santander SA. Term issuance refers here to securities with an original contractual maturity or earliest call date of at least 18 months.
(b) Comprises medium-term notes, subordinated debt, unguaranteed senior debt and guaranteed senior debt issued under HM Treasury's Credit Guarantee Scheme.
(c) Comprises covered bonds, commercial mortgage-backed securities, residential mortgage-backed securities and other asset-backed securities.

Movements in the relative prices of funding are likely to be part of the explanation, and some data on market prices are available to help inform that assessment. But other factors that are less easy to assess may also be important, such as: investor demand for banks' debt; banks' access to funding markets; non-price terms such as market liquidity; changes to the desired size of bank balance sheets; and regulatory influences. Similar issues affect the interpretation of changes in the volume of capital held by banks, as well as the type of capital instruments held. The *BLS* can help shed light on these issues.

The case for a survey of bank liabilities

One way to improve information in these areas is to ask market participants directly. The Bank's Markets area holds regular discussions with market participants as part of its Market Intelligence activities, as do Prudential Regulation Authority staff. And Bank staff have conducted regular biannual rounds of meetings with the largest UK banks and building societies for many years as part of the *CCS*, which have increasingly included some discussion of the role of funding conditions in driving lending decisions. The overall insights from these discussions have been highlighted regularly in the MPC minutes, FPC records, the *Inflation Report* and the *Financial Stability Report*.

But there are several advantages to complementing these discussions with more formal survey information on developments in bank liabilities:

- By including a wide and consistent sample of banks over time — and asking the same, structured set of questions — the survey should produce information that can be used in a range of analyses.
- By including questions on banks' expectations, and factors driving changes, the Bank of England will be better able to assess how developments in banks' liabilities unfold, relative to existing plans, and what affected them.
- And by publishing the aggregate results in a regular report, the survey should be useful for market participants, economists and commentators more widely.

Publication of the survey results will also improve the transparency of the monetary policy and financial stability policy processes. The survey will supplement the partial information from existing small-scale surveys, and therefore enhance the Bank's quantitative analysis of monetary and credit conditions.

Survey design

The survey will be conducted on a quarterly basis. That aligns with the frequency of the *CCS* and means that the results can be drawn upon in both the Bank's *Inflation Report* and the *Financial Stability Report*.

(1) These are debt instruments that are secured against assets. In the case of asset-backed securities, the security is issued by a special purpose vehicle, and is backed by, and cash flows come from, assets such as retail mortgages, commercial mortgages or credit card loans. In the case of covered bonds the security has an associated 'cover pool' of assets, such that the investor has dual recourse to both the issuer and the 'cover pool'.

The Bank ran the full survey for the first time in 2012 Q4. The survey was conducted between 21 November and 11 December 2012. The 2013 Q1 survey was conducted between 8 February and 1 March 2013. As previously announced, the Bank will publish the results of these two surveys together in order to aid interpretation of the results. The first report, covering both of these surveys, will be published on 26 March. Thereafter, the survey results will be published at the end of the relevant quarter, typically around a week before the *CCS* is published. The publication dates for the next two quarters will be released with the first report.

Which institutions does the survey cover?

Banks with a market share of 1% or more, in lending to UK households and companies, are invited to complete the survey.(1) In large part, that reflects a desire to ensure consistency across the *BLS* and the *CCS*. But there are two differences in the precise criteria used in each survey. First, in the *CCS*, the samples are selected on the basis of market share in three subsectors (household secured, household unsecured and corporate lending markets). As a result, while the major UK lenders complete all three questionnaires, smaller lenders may be invited to complete only a subset of the surveys. In contrast, the market shares for the *BLS* are based on total shares in lending to households and private non-financial corporations (PNFCs).(2)

A second difference in the choice of sample criteria across the two surveys is that the *BLS* sample includes a supplementary criterion on deposit volumes. That is because the motivation for the survey is improving understanding of developments in both monetary and credit conditions. So it would be important to capture any institutions that have a large share of deposits, regardless of their share in lending. In practice, the number of institutions that meet this criterion, but would not be included based on loan market share alone, is small.

Given the sample criteria, the Bank of England envisages that the survey would typically cover between 12 and 16 institutions. Based on the latest available market shares, that covers banks and building societies only, although other specialist lenders would be included should either of their market shares (in loans or deposits) rise above the 1% threshold. Together, the institutions captured by the survey cover around 85% of loans to households and PNFCs and a similar proportion of household and PNFC deposits.

What does the survey ask?

The survey has three sections: developments in funding; developments in capital; and implications for the provision of credit to UK households and companies. A full explanation of the intended interpretation of the survey questions can be found in the survey compilation guide.(3)

The section on developments in funding is the longest section of the survey. There are several questions on the volumes of different types of funding raised over the past three months as well as planned funding issuance. The aim of these questions is to provide more detail on the split between retail and wholesale funding as well as the maturity and currency of that funding. This section also includes a question on changes in the average cost of funding.

The section on funding also aims to provide insights into the role of various factors in driving movements in issuance. These are generally split into 'demand' and 'supply' factors, which are specified from the point of view of the issuer. For example, a 'demand' factor would include anything that had influenced the banks' need or desire for a particular volume of funding, holding constant any supply factors.(4) The 'demand' factors typically include price terms, such as the interest rate paid, spread charged or yield. Some questions also ask about non-price terms or market liquidity. In addition, most questions ask respondents to identify the influence of any regulatory factors in driving changes. 'Supply' factors typically include market access and *investor* demand in the case of wholesale debt finance; and changes in the supply of deposits, unrelated to rates paid or other terms, in the case of retail funding.

The section on developments in capital includes similar questions to those on funding. It begins by asking about changes in the volume of total capital, and the average cost of that capital.(5) Like the funding section, it aims to provide insights on the factors driving changes in capital including: how capital has been affected by profits, losses, deductions and other charges;(6) the impact on banks' demand for capital of factors, such as regulation and the economic outlook; and the impact on capital of supply factors, such as market conditions and pressure from investors. The section also asks how such factors have affected the composition of banks' capital between common equity capital and other types of capital.

A key way in which developments on the liability side of bank balance sheets typically affect credit supply is via the

(1) To avoid volatility in the sample from quarter to quarter, the sample is selected based on average market shares over the previous twelve months. In general, banks will be invited to join the sample if this average market share remains above 1% for two consecutive quarters. Once they have been included, banks will continue to be surveyed until this average market share drops below 0.8%.
(2) The household *CCS* samples are based on shares in gross lending, whereas, due to data availability, the shares for PNFC lending are based on net lending data. For the *BLS*, shares in net lending are used.
(3) See www.bankofengland.co.uk/publications/Pages/other/monetary/bls/default.aspx.
(4) The options specified in the survey vary by question, although respondents have the option to include additional comments, which could include other factors, where relevant.
(5) Total capital is defined as common equity Tier 1 (CET1) capital, additional Tier 1 (AT1) capital and Tier 2 (T2) capital. Further details on capital are provided in the compilation guide: www.bankofengland.co.uk/publications/Documents/other/monetary/bls/blscomp080213.pdf.
(6) Changes in regulation may result in deductions to a bank's nominal capital position, such that its regulatory capital level is reduced.

cost of providing funds to business units set by banks' treasury departments.(1) For many lenders, that is done by the central treasury department charging a set amount for each additional (or marginal) unit of funding required by business units, often referred to as the 'transfer price'. The transfer price should affect the cost of borrowing for firms and households, which is covered in the Bank of England's *Credit Conditions Survey*. But pass-through of changes in funding costs often occurs with a lag. And evidence from the major lenders suggests that changes in funding costs may not map one-to-one into the transfer price.

Understanding how changes in funding affect the provision of credit is a key aim of the survey. Accordingly, the final section asks about changes in banks' transfer prices, how different funding instruments affect the transfer price and how frequently the transfer price is updated. It also includes a question on the average cost of providing funds to business units, which is the cost of funding the stock of loans, as opposed to cost of funding the flow of new loans which is captured in the transfer price.

Summarising the responses

Lenders are asked to provide a qualitative answer to each question. For example, when asked about trends in funding volumes, respondents are given five options in responding: 'up a lot', 'up a little', the 'same', 'down a little' or 'down a lot'. In presenting the aggregate results, individual banks' responses will be weighted together by their market shares in loans, and aggregated to produce net percentage balances.(2) So, for example, a positive net percentage balance in response to a question on funding volumes would mean that banks, on balance, had increased their funding volumes, all other factors being equal.

The report will include the weighted aggregate net percentage balances for each question along with a short descriptive summary of the results.

Conclusion

In order to meet its monetary and financial stability objectives, it is important for the Bank of England to understand developments in monetary and credit conditions. In an effort to improve its understanding in these areas, the Bank launched a quarterly *Bank Liabilities Survey* in 2012 Q4. The survey gathers information about past and expected trends in banks' liabilities and their drivers. The qualitative responses from the survey will be weighted together to produce aggregate quantitative net percentage balances. These balances, along with a short descriptive summary of the results, will be published on a quarterly basis. The first report, which will cover the results of the 2012 Q4 and 2013 Q1 surveys, will be published on 26 March. Thereafter, the Bank will publish the results of each survey at the end of the relevant quarter.

(1) 'Business units' of the bank are responsible for pricing and extending loans to households and corporates. For a discussion of how banks set the price of new lending, see Button, Pezzini and Rossiter (2010).
(2) Each bank is assigned a score based on its response. For example, banks that report that funding volumes have changed 'a lot' are assigned twice the score of those that report that volumes have changed 'a little'. The scores are weighted by banks' market shares, and the aggregate result is scaled to lie between ±100.

References

Bridges, J, Rossiter, N and Thomas, R (2011), 'Understanding the recent weakness in broad money growth', *Bank of England Quarterly Bulletin*, Vol. 51, No. 1, pages 22–35.

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Annex
Bank Liabilities Survey: survey questions

This annex lists the questions asked in the 2012 Q4 and 2013 Q1 *Bank Liabilities Survey*. Each question asks about developments over the past three months relative to the previous three months, and the next three months relative to the latest three-month period (an exception is Question 4 in Section C). For the purposes of this publication, the presentation of the survey has been adapted from the version on the internet, which, for example, also includes space for lenders to provide additional comments.

Section A: Developments in funding

Total funding

1. How have your funding volumes changed over the past three months? How do you plan to change funding volumes over the next three months?
   - Total funding
   - Retail deposit funding
   - Other funding

2. How has the **average** cost of funding changed over the past three months? How do you expect it to change over the next three months?
   - Retail deposit spreads relative to appropriate reference rate(s)
   - Other funding spreads relative to appropriate reference rate(s)

Deposits

3. Which of the following demand and supply factors have been/are likely to be important reasons for changes in the volumes of **household** deposits that you have raised?

Demand factors:
- Rates paid relative to the cost of other liabilities
- Non-price terms
- Market share objectives
- Regulatory drivers
- Funding structure objective (excluding those driven by regulation)

Supply factors:
- Changing supply of deposits by households, unrelated to rates paid or non-price terms on those deposits

4. Which of the following demand and supply factors have been/are likely to be important reasons for changes in the volumes of **private non-financial corporations (PNFCs)** deposits that you have raised?

Demand factors:
- Rates paid relative to the cost of other liabilities
- Non-price terms
- Market share objectives
- Regulatory drivers
- Funding structure objective (excluding those driven by regulation)

Supply factors:
- Changing supply of deposits by PNFCs, unrelated to rates paid or non-price terms on those deposits

Wholesale funding

5. Which of the following demand and supply factors have been/are likely to be important reasons for changes in deposits from **other financial corporations (OFCs)**?

Demand factors:
- Rates paid relative to the cost of other liabilities
- Non-price terms
- Market share objectives
- Regulatory drivers
- Funding structure objective (excluding those driven by regulation)

Supply factors:
- Changing supply of deposits by OFCs, unrelated to rates paid on those deposits

6. How have the proportions of wholesale funding (excluding central bank operations) raised through the following sources changed over the past three months? What proportions do you plan to raise over the next three months?

- Proportion of private/public issuance
- Proportion of long-term/short-term issuance

  Short-term funding:
  - Certificates of deposit
  - Commercial paper
  - Short-term repo/securities lending
  - Unsecured borrowing including deposits from OFCs and interbank deposits

  Long-term funding:
  - Long-term repo/securities lending
  - Structured products: structured notes
  - Structured products: other
  - Senior unsecured debt
  - Asset-backed securities (excluding covered bonds)
  - Covered bonds

7. How has demand for your wholesale debt from the following investors changed over the past three months? How do you expect it to change over the next three months?

- All investors
- UK investors
- Non-UK investors
  - Retail investors
  - Other banks
  - Money market funds
  - Hedge funds
  - Sovereign wealth funds
  - Insurance companies and pension funds
  - Other asset managers

Maturity of wholesale debt funding

8. Which of the following factors have affected your issuance of **short-term** wholesale debt funding over the past three months? What factors are important reasons for planned issuance over the next three months?

Demand factors:
- Need or desire to change size of balance sheet
- Asset-liability matching
- Price/yield
- Non-price terms/liquidity
- Regulatory drivers

Supply factors:
- Market access
- Investor demand

9. Which of the following factors have affected your issuance of **long-term** wholesale debt funding over the past three months? What factors are important reasons for planned issuance over the next three months?

Demand factors:
- Need or desire to change size of balance sheet
- Asset-liability matching
- Price/yield
- Non-price terms/liquidity
- Regulatory drivers

Supply factors:
- Market access
- Investor demand

Currency of wholesale debt funding

10. How has your use of the following currency markets changed over the past three months? What are your plans for the next three months?

- Sterling
- US dollar
- Euro
- Other

11. Which of the following factors have affected your non-sterling issuance over the past three months? What factors are important reasons for your plans over the next three months?

- Changes in currency mix of assets
- Relative cost of funds: due to currency swap markets
- Relative cost of funds: due to other changes
- Availability of suitably rated currency swap counterparties
- Differences in regulation in different currency markets
- Differences in investor demand
- Differences in market access

Section B: Developments in capital

1. Has your total **level** of capital changed over the past three months? What are your plans for the next three months?

2. How has the **average** cost of capital changed over the past three months? How do you expect it to change over the next three months?

3. Which of the following factors have been/are likely to be important reasons for changes to total capital? Please consider both past changes and expectations of future changes.

Direct effects on your total capital:

- Direct effects of profits, losses, deductions and charges (UK-specific)
- Direct effects of profits, losses, deductions and charges (non-UK specific)

Factors that have affected your demand for capital:

- Changing economic outlook
- Strategic decisions to increase/reduce risk
- Regulatory drivers
- Change in size of balance sheet
- Change in riskiness of assets

Supply factors:

- Market conditions
- Investor pressure to change volume of capital

4. How has demand for total capital from the following investors changed over the past three months? How do you expect it to change over the next three months?

- All investors
- UK investors
- Non-UK investors
  - Retail investors
  - Other banks
  - Hedge funds
  - Sovereign wealth funds
  - Insurance companies and pension funds
  - Other asset managers

5. How have the following factors affected the proportion of total capital accounted for by additional Tier 1 and Tier 2 capital instruments (relative to common equity capital) over the past three months? What are your expectations for the next three months?

- Changing economic outlook
- Strategic decision to change mix of capital
- Regulatory drivers
- Market conditions
- Investor demand

Section C: Implications for the provision of credit to UK households and companies

1. How has the **average** absolute cost of providing funds to business units changed over the past three months? How do you expect it to change over the next three months?

2. How has the **marginal** absolute cost of providing funds to business units changed over the past three months (sometimes referred to as the 'transfer price')? How do you expect it to change over the next three months?

3. How have the following groups of instruments affected the **marginal** absolute cost of providing funds to business units (sometimes referred to as the 'transfer price') over the past three months? What are your expectations over the next three months?

- Common equity capital
- Debt capital
- Retail deposit spreads relative to appropriate reference rate(s)
- Short-term wholesale funding spreads relative to appropriate reference rate(s)
- Long-term **secured** wholesale funding spreads relative to appropriate reference rate(s)
- Long-term **unsecured** wholesale funding spreads relative to appropriate reference rate(s)
- Swaps or other reference rates

4. At what approximate frequency do you currently update the **marginal** absolute cost of providing funds to business units (sometimes referred to as the 'transfer price')?