Institutional sectors and financial instruments in the UK flow of funds accounts matrices

Explanatory notes for the institutional sectors and financial instruments referred to UK flow of funds accounts matrices: 2019, as part of the Economic Statistics Transformation Programme.

Contact:
David Sweet
flowoffundsdevelopment@ons.gov.uk
+44 (0)1633 455860

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1 . Introduction

We created a series of explanatory notes to accompany new experimental from-whom-to-whom statistics published since March 2015. These explanatory notes outline the data sources and methods used in the construction of the 2019 matrices. The explanatory notes are important in increasing user understanding of the financial account data.

As part of the ongoing development programme of these experimental from-whom-to-whom statistics, we have produced a further explanation of the institutional sectors and financial instruments that are referred to in the detailed explanatory notes.

We welcome feedback on the information included in this article. Any feedback on this can be sent to flowoffundsdevelopment@ons.gov.uk.

2 . Context of Office for National Statistics (ONS) classifications

Robust classifications are needed to produce good quality national accounts that are internally consistent and comparable across the world. It is a legal requirement for the UK to compile the national accounts statistics in accordance with the European System of Accounts 2010: ESA 2010, which is done by the ONS. The two main areas of classification that we engage in are classifying institutional units and classifying transactions.

3 . Classifying institutional units to sectors

We assess institutional units against international regulations to decide how they should be treated in the UK National Accounts. Institutional units are defined as entities with the economic competence to own goods and assets, incur liabilities and enter into contracts in their own right. They also have the ability to produce a complete set of accounts.

The economy consists of a large number of institutional units such as businesses, government bodies and households. These institutional units are classified into institutional sectors according to their characteristics. Each of these sectors is discussed in more detail in this section.

Public corporations (PCs)

The public corporations sector contains institutional units that satisfy the following three conditions:

- the unit is classified as a market body – a body that derives more than 50% of its production costs from sales of goods or services at economically significant prices
- the unit is controlled by the government or another public corporation
- the unit has substantial day-to-day operating independence – it is a separate unit from its parent

Private non-financial corporations (PNFCs)

The private non-financial corporations (PNFC) sector consists of trading businesses in the private sector. This sector is diverse and examples of units within the sector include retailers, manufacturers, and accountancy and law firms amongst many others.

Monetary financial institutions (MFIs)

There are three subsectors within the monetary financial institutions sector:

- Central Bank – the Bank of England
- deposit-taking corporations – retail banks and building societies
- money market funds – investment funds that only invest in short-term debt securities such as treasury bills, certificates of deposit and commercial paper; they can also invest in long-term debt securities with a residual short-term maturity

Other financial institutions (OFIs)

The other financial institutions sector contains a wide range of units who engage in lots of different activities. There are four subsectors within the other financial institutions sector:

- non-money market funds – investment trusts, unit trusts and other collective investment schemes whose investment fund shares or units are not close substitutes for deposits
- other financial intermediaries – largely consists of financial institutions that are engaged in long-term financing; examples of institutional units that are classified within this subsector include security and derivative dealers, finance leasing companies, venture and development capital companies, and export and import financing companies
- financial auxiliaries – contains a wide range of institutional units who perform many different activities; examples include insurance brokers, investment advisers, fund managers and payment institutions (facilitating payments between buyer and seller)
- captive financial institutions and money lenders – there are two distinct groups within this subsector: captive financial institutions, which includes holding companies and special purpose entities, and money lenders

Non-money market funds are displayed in the Experimental Statistics, as a subset of total other financial institutions, for the first time.

Insurance corporations and pension funds (ICPF)

There are two distinct parts to this institutional sector. Firstly, insurance corporations consist of units that provide services of life or non-life insurance, and reinsurance. Secondly, pension funds consist of units that act as social insurance schemes and provide income in retirement, and other benefits for death and disability.

Central government (CG)

The central government sector consists of administrative departments and central agencies whose competence extends over the whole of the economic territory. An example of a unit within this subsector is HM Treasury.

Local government (LG)

The local government sector consists of types of public administration whose competence extends to only a local part of the economic territory.

Households (HH)

The households sector captures groups of people who share living accommodation and who also share some, or all of their income and collectively consume certain types of goods and services such as food or electricity. The households sector also includes those who are self-employed.

Non-profit institutions serving households (NPISH)

The non-profit institutions serving households (NPISH) sector captures institutions that provide goods and services, either free or below market prices. NPISH income is mainly derived from grants and donations and they are not controlled by the government. Examples of units in the NPISH sector include charities, trade unions and political parties.

Rest of the world (RoW)

The rest of the world sector captures all institutions and individuals that are not resident in the UK but have economic interactions with units that are resident in the UK.

4 . Classifying financial transactions

The European System of Accounts 2010: ESA 2010 records a wide range of transactions that take place between the various units in the economy.

AF.1 – Monetary gold and special drawing rights (SDRs)

The financial instrument AF.1 is made up of two distinctive parts: AF.11 – monetary gold and AF.12 – special drawing rights (SDRs). Gold includes gold bullion and unallocated gold accounts with non-residents that give title to claim the delivery of gold. SDRs are international reserve assets created by the International Monetary Fund and which are allocated to its members to supplement existing reserve assets.

AF.2 – Currency and deposits

The financial instrument AF.2 is made up of two distinctive parts: AF.21 – currency and AF.22 and AF.29 – deposits. Currency relates to the amount of physical notes and coins a unit holds. Deposits relate to the amounts that units hold in bank accounts.

AF.3 – Debt securities

The financial instrument AF.3 consists of negotiable financial instruments serving as evidence of debt. This instrument mainly consists of bonds. A bond is a debt investment in which an investor loans money to an entity that borrows the funds for a defined period of time at a variable or fixed interest rate.

AF.4 – Loans

The financial instrument AF.4 consists of short-term and long-term loans. Loans are created when creditors lend funds to debtors.

AF.5 – Equity and investment fund shares

The financial instrument AF.5 consists of four distinct parts.

Listed shares – equity securities listed on an exchange. Such an exchange may be a recognised stock exchange or any other form of secondary market. Listed shares are also referred to as quoted shares. The existence of quoted prices of shares listed on an exchange means that current market prices are usually readily available.

Unlisted shares – equity securities not listed on an exchange.

Other equity – comprises all forms of equity other than those classified in subcategories listed shares (AF.511) and unlisted shares (AF.512).

Investment fund shares – shares of an investment fund if the fund has a corporate structure. Investment fund units are shares of an investment fund if it is structured as a trust. Investment funds are collective investment undertakings through which investors pool funds for investment in financial and non-financial assets.

A more granular breakdown of AF.5 is displayed in the 2019 Experimental Statistics.

AF.6 – Insurance, pensions and standardised guarantee schemes

The financial instrument AF.6 consists of three distinct parts:

- non-life technical reserves – these are financial claims policy holders have against non-life insurance corporations
- life insurance and annuity entitlements – these are financial claims policy holders and beneficiaries have against corporations providing life insurance
- pension entitlements – these are financial claims that current and former employees hold against their employer, or their pension scheme

AF.71 – Financial derivatives

The financial instrument AF.71 can be used for a number of purposes including risk management, hedging and arbitrage against markets. Financial derivatives enable institutional units to trade specific financial risks such as interest rate risk, currency, equity and credit risk to other institutional units that are willing to take these risks, usually without trading in a primary asset.

AF.72 – Employee stock options

The financial instrument AF.72 consists of agreements made on a given date under which the employee has the right to purchase a given number of the employer’s shares at a given price, either at a stated time or within a period immediately following the vesting date.

AF.8 – Other accounts receivable or payable

The financial instrument AF.8 consists of financial assets and liabilities created as counterparts to transactions where there is a timing difference between these transactions and the corresponding payments. AF.8 consists of two distinct parts: AF.81 – trade credits and advances and AF.89 – other accounts receivable or payable, excluding trade credits and advances.