

Our response to EBA/DP/2012/03 – European Banking Authority discussion paper relating to draft regulatory technical standards on prudent valuation under Article 100 of the draft Capital Requirements Regulation

Background

The Building Societies Association represents mutual lenders and deposit takers in the UK including all 47 UK building societies. Mutual lenders and deposit takers have total assets of over £375 billion and, together with their subsidiaries, hold residential mortgages of £245 billion, 20% of the total outstanding in the UK. They hold more than £250 billion of retail deposits, accounting for 22% of all such deposits in the UK. Mutual deposit takers account for 31% of cash ISA balances. They employ approximately 50,000 full and part-time staff and operate through approximately 2,000 branches.

Introduction

We welcome the opportunity to comment on the draft RTS but are restricting our response to the one area – proportionality – that has a direct, and potentially damaging, effect on our members. Due to the low risk, retail-based nature of our members' operations, the other questions posed have no or little impact on them.

Question 1

Q1: Do you believe that a proportionality threshold should be considered before requiring an institution to assess the prudent value of all fair value positions? If yes, how would you define the threshold?

A proportionality threshold should be in place for this requirement. As accounting frameworks already require that valuations are prudent, the benefits of the proposals to institutions such as UK building societies that do not have material trading books

are negligible. The costs of these proposals for those institutions, however, are potentially very high.

It is noted that the proposals are based on approaches for trading books, but are to be applied to banking books. Where an organisation does not have a trading book, these requirements are extremely onerous and offer little apparent value. Daily changes in market value have a much smaller impact on these institutions and, as positions are held for longer periods, the stress testing within the annual ICAAP is sufficient to protect against pricing volatility for non-trading books.

Article 89 of the CRR removes the requirement of calculating certain market risk elements for institutions where the trading book is small in relative and absolute terms. These thresholds could be used as the basis for the proportionality threshold.

A cost/benefit analysis should be conducted to determine where a threshold should be set.

7 January 2013