The Building Societies Associations response to CP16 on Large Exposures

Introduction

1. The Building Societies Association represents all 59 building societies in the United Kingdom. Building societies have total assets of just under £325 billion and, with their subsidiaries, hold residential mortgages of over £250 billion, approximately 20% of the total outstanding in the UK. Societies hold just under £210 billion of retail deposits, accounting for about 20% of all such deposits in the UK. Building societies also account for over 37% of all cash ISA balances. Building societies employ over 50,000 full and part-time staff and operate through more than 2,100 branches.

Issues

2. We should like to express our thanks for the opportunity to comment on CEBS consultation on the second part of its technical advice on large exposures (CP 16).

3. Given the considerable overlap of interests, the Building Societies Association has engaged with the British Bankers Association (BBA) and has consequently decided to endorse the response submitted by the BBA on behalf of its member banks with a small capital base.

4. Issues identified in this BBA response - interbank exposures, intra group exposures and definition of interconnectedness - have an impact on the businesses of the UK's building societies, with interbank exposures being the most significant.

5. In common with the BBA, we believe more work needs to be done on this issue and more time for discussion is needed.

6. The proposals suggesting a withdrawal of the exemption for IBE of maturities less than 12 months indicates a possible lack of understanding of how the interbank markets operate and how mutual organisations work.

7. While CP 14 (first part of CEBS' technical advices on LEs) states that creditworthiness is not a consideration for the LE regime, we share the BBA's view that creditworthiness is a fundamental criterion of LE management. The proposals in CP 16 will inter alia force building societies either (i) to engage with counterparties below their agreed creditworthiness criteria or (ii) to redirect liquidity into, for example, Treasury Bills.

8. Option 7(i) gives rise to concerns regarding asset quality and liquidity (ie reliability, particularly in stressed market conditions). Both these factors appear to run contrary to the investment objectives applicable to building

societies' eight day liquidity requirements, where asset quality and (consequential) depth of
liquidity are paramount from the perspective of prudent management.

9. Under option 7(ii), the opportunity cost of moving assets from, for example, three month clearing bank CDs into Treasury Bills will represent a material erosion of societies' operating profits before tax.

Action

10. We trust the Committee will listen to our concerns and those of the BBA and make the necessary changes to its proposals.

11. Acknowledgment of this response would be appreciated.