# BSA Response to CP6/23 The non-performing exposures capital deduction

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Building Societies Association

# BSA Response

The BSA supports the proposals in CP6/23 to remove the CET1 capital deduction for non-performing exposures (NPE) that are treated as insufficiently provided for by firms. This deduction derives from CRR and is designed to be a backstop for the EU as a whole. We agree with the PRA that while adequate provisioning is an important risk management and supervisory consideration, the NPE deduction in Article 36(1)(m) is not the most appropriate nor effective means to address issues with NPE provisioning in the UK. Furthermore the calculation is not an objectively accurate measure of NPE provisioning levels for PRA regulated firms.

We believe that this is a good example of where complex but broad brush rules applied across the whole sector are not the best answer. Supervisory oversight is a far better way to focus on specific firms where the PRA may have concerns, rather than to require the whole sector to make such deductions from capital. We therefore see the removal of this deduction to be well aligned to the PRA's Strong and Simple project. We encourage the PRA to look for other opportunities to remove requirements that were designed for the wider-EU but that work less well in the UK.

The BSA also supports the removal of the associated reporting requirements for the NPE deduction as set out in the consultation document.

The BSA supports the early implementation of the removal of the NPE deduction, i.e. for it to apply from one day after the publication of the final policy anticipated for Q4 2023.

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We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the Government and Parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £481 billion, and account for 23% of the UK mortgage market and 18% of the UK savings market.