CP7/23 - Regulated fees and levies: Rates proposals 2023/24

Response to PRA consultation paper, CP 7/23

12 May 2023

Building Societies Association

Executive summary

The BSA is pleased to offer comments on these proposals and on the PRA fees and levies policy in general; our main concerns with these, relates as ever to cost control and to the lack of an appropriate fees tariff for building societies. Some of our arguments are not new but remain valid nonetheless.

General policy considerations

Decoupling of building society tariff structure

The BSA has previously suggested the decoupling of building societies from banks and a funding tariff that reflects their lower risks and domestic focus, with consideration of a 'polluter pays' approach. We observe that the theme or concept of an approach which takes into account both size and risk related aspects, and a proportionate approach, seems to be increasing in relevance; for example:

- MiFID trading firm fees, with the FCA reflecting in CP22/23 that they no longer consider headcount to be a good proxy for the risks trading firms pose to their statutory objectives, and have sought comment on the most appropriate metric(s) to use to calculate fees for such firms;
- Strong and Simple framework development, and its associated Simpler-regime Firm criteria and thresholds proposed which include both size and risk-related criteria.

Building societies operate a low risk business model, compared to many other firms, driven by restrictions imposed by building society legislation, the PRA's supervisory statement on building societies' treasury and lending activities (SS20/15), and societies' desire to serve their members with straightforward, well-designed, low cost products.

We therefore encourage the PRA to adopt a more risk-based approach, potentially alongside the existing size-related metrics, to future fee and rate policy considerations.

Overall fee rate changes from 2022/23

The proposed Annual Funding Requirement ('AFR') allocations for 2023/24 reflect a decrease from 2022/23 of £6.0m or 3% for fee block A1 – Deposit takers, with the total AFR for 2023/24 showing a 3% decrease from 2022/23. The A1 fee-block decrease is driven by an 8% reduction in fee rates from 2022/23, with an associated increase in tariff data of 5.2%; arguably this relatively small increase in tariff data does not represent an increase in the overall risk or supervisory effort associated with this fee block, yet this volatility impacts the fees paid by the fee-block.

We welcome the overall reduction in the total AFR and charges to the A1 fee-block, as banks and building societies continue to face cost headwinds due to cost of living pressures, inflation and talent resource scarcity.

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The Building Societies Association (BSA) is the voice of the UK's building societies and also represents a number of credit unions.

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.