

PRA DP 1/14 – OPERATIONAL CONTINUITY IN RESOLUTION RESPONSE FROM THE BUILDING SOCIETIES ASSOCIATION

The Building Societies Association (BSA) welcomes the opportunity to respond, briefly, to DP 1/14. Our comments mainly address the DP's Question 1, on scope, and are provided from the perspective of BSA members, who will generally be external users of critical shared payments services provided by banks that are to be ring-fenced (RFBs). The BSA is happy to engage in further discussion on the potential impact of the DP, and facilitate contact with relevant practitioners among its membership.

Operational continuity in resolution is clearly important for financial stability, and with the explicit end of “too big to fail”, it is essential that the firms in the wider banking sector can have confidence in the resilience of some of the critical shared services provided by banks that are to be ring-fenced (on which they, too, rely directly). The DP appears to have both a narrow focus (on the intra-group arrangements at RFB groups post ring-fencing) and a wider focus (on operational continuity issues elsewhere in the banking sector). While the overall objective of operational continuity is the same, the BSA is not convinced that this is best addressed by a single set of proposals to be applied (even proportionately) across the whole continuum of banks and building societies. Clearer demarcation is needed – the immediate priority is clearly the RFB situation, so we suggest PRA concentrates on that area first, without attempting to roll out the same rules more generally.

Building societies mostly fall within the description in paragraph 1.12 of the DP – their principal critical economic function is deposit-taking, and they are small relative to the RFBs. The main focus for building societies' attention has to be the new requirements and changes flowing from CP 20/14 – Deposit Protection, and we agree with PRA that the scale of actions needed beyond compliance with the CP 20/14 requirements should be minimal. Paragraph 1.11 provides a further helpful indication – that only firms asked to submit Phase Two resolution pack information would need to take material actions relating to the DP. However, the last sentence of paragraph 1.12 of the DP was not helpful, and arguably inconsistent : we do not think it sensible for smaller societies, in particular, who need to concentrate their limited resources on the CP 20/14 requirements, to have to divert effort to puzzling out how far this DP applies to them.

Building societies have a major interest in the future resilience of certain critical shared services provided by RFB groups, for which they are currently external clients. The predominant example is payment and clearing services – most societies rely on prospective RFBs to process and clear their sterling payments. Looking ahead, societies will want reassurance that ring fencing does not adversely affect them as payment services clients of RFB groups. We therefore suggest a further assessment criterion – related to PRA's new competition objective – of equitable access – the arrangements for [RFBs] critical shared services should not, in a resolution situation, operate so as to disadvantage other banks or building societies who are external clients.

Turning to the wider non-RFB context, the competition objective is also relevant to two situations likely to be encountered in the building society sector. First, where a medium/large society with extensive systems capacity offers a specific critical service- e.g. a savings

administration platform – to a range of other building societies or banks. Second, where a group of building societies (and / or banks) obtains a critical shared service on a joint venture/ consortium basis. Both structures can save or spread overheads, increase efficiency, and so strengthen the competition that challenger building societies and banks provide to the incumbent RFBs. Such arrangements naturally display some of the features desired in DP 1/14 – as they are already between separate firms, they will be fully and contractually documented, with SLAs and arms- length pricing. Some of the other prescriptions in the DP may not be necessary or appropriate. Any extension of the DP 1/14 proposals beyond RFB groups must ensure a better balance between the PRA's financial stability and competition objectives – a general statement about proportionate application is not sufficient.

BACKGROUND NOTE

The Building Societies Association represents all 44 UK building societies. Building societies have total assets of over £330 billion and, together with their subsidiaries, hold residential mortgages of over £240 billion, 19% of the total outstanding in the UK. They hold over £240 billion of retail deposits, accounting for 19% of all such deposits in the UK. Building societies account for about 28% of all cash ISA balances. They employ approximately 39,000 full and part-time staff and operate through approximately 1,550 branches.

BSA January 2015