

Response to the FSA quarterly consultation paper no 31, FSA CP 11/27 (chapter 2)

Introduction

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 over £235 billion, 19% 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 34% of cash ISA balances. They employ approximately 50,000 full and part-time staff and operate through approximately 2,000 branches.

Proposed changes to liquidity regime

Q2.1: Do you agree with our proposal to amend BIPRU 12.7.3R and BIPRU 12.7.5R?

The FSA wishes to amend the rules relating to the liquidity buffer to read that high quality debt securities and sight deposits issued by a government or central bank are eligible for inclusion *only* if issued by an EEA state, Canada, Australia, Japan, Switzerland or the USA. The word *only* is new and intended to emphasise the countries from which eligible debt securities and sight deposits may be included.

We agree with this proposal aimed at making the rule clearer.

Q2.2: Do you agree with our proposals to amend BIPRU 12.7.11R?

The proposal is to change the rule - BIPRU 12.7.11R(2) - to make clear that firms are expected to test their operational ability to raise funds relating to assets not in their liquid assets buffer through central bank facilities. This means the detailed requirements of 12.7.11R(3) and 12.7.12R(4) will no longer apply to the proposed operational testing requirement. In addition, the wording in BIPRU 12.7.11R(3)(d) will be amended to remove reference to central bank transactions.

We agree.

Q2.3: Do you agree with our proposal to amend BIPRU 12.9.13R, 12.9.14R and 12.9.18R?

The FSA proposes that firms should provide an explanation of what they have done should the following occur: a breach, or expected breach, of the simplified buffer requirement or the firm's liquid assets buffer falling, or being expected to fall, below the ILG (all "events" defined in BIPRU 12.9.14R), which may include taking actions from their CFPs. In addition, the FSA wishes to make a minor change to the definition of "events".

We agree that the current rule could wrongly suggest that the CFP has a single invocation point. Therefore, we believe that the proposed amended rule better indicates that firms should take actions outlined in their CFPs as and when necessary, and also consider actions not listed in their CFPs. We also agree that will help the FSA to assess the situation before a firm delivers its liquidity remediation plan.

Q4: Do you agree with the cost benefit analysis

Yes.