

Our response to the FSA's quarterly consultation paper no 34 (CP 12/ 27) – chapter 4, related parties

Background

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 £245 billion, 20% 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 31% of cash ISA balances. They employ approximately 50,000 full and part-time staff and operate through approximately 2,000 branches.

Introduction

We fully support the principle that banks and building societies should extend exposures to related companies and individuals on an arm's length basis. We also agree that these exposures must be effectively monitored; that appropriate steps should be taken to control or mitigate the risks; and that write-offs of such exposures should be made according to standard policies and processes. There should therefore be board-mandated procedures setting out banks' and building societies' approach to transactions with related parties. Any measure that aims to prevent abuses arising from transactions with related parties and to address conflict of interest is welcome.

Our one suggestion is that the rules should be flexible and proportionate. One example is the proposed new requirement in SYSC 7.1.19(4) that "the *firm* records and monitors the details and amount of any related party transactions using an independent credit review or audit process and provides those details and amount to the *FSA* if required". We consider this to be too prescriptive; instead we suggest that the review of such transactions, and the recording thereof, be left to the board's

discretion. We would expect the process to be documented in high level terms, however.

Q4.1: Do you consider that these rules and guidance should also apply to firms other than banks and building societies?

It is hard to comment authoritatively as no detail is provided on the types of financial services firms the FSA has in mind. But we think that consideration should be given to extending the requirements.

Q4.2: If yes, do you believe there would be significant cost implications in extending the application of this policy?

We do not believe there would be significant cost implications in extending this policy to other financial services sectors.

Q4.3: Do you believe that the identification, monitoring and control of transactions with related parties are covered in the current practices of banks and building societies?

We are unable to comment on banks but consider the identification, monitoring and control of transactions with related parties are covered in the current practices of building societies. The Building Societies Act 1986 sets out the disclosure requirements regarding building societies' connected undertakings and past and present directors and officers (including connected persons and associated bodies corporate).

Q4.4: Do you agree that the cost impact of these proposed changes is negligible? If not, please provide details.

No regulatory change comes without a cost. What might seem negligible to an outsider often has an impact on the firm concerned. This impact may not always be on pure costs but on other resources such as staff and/ or systems. In this case, however, we are confident that the impact of these changes will be minimal.