

## **Response to the PRA consultation CP5/26 – Modernising the liquidity policy framework**

### **About the Building Societies Association**

The Building Societies Association (BSA) represents all 42 UK building societies, including both mutual-owned banks, as well as 7 of the largest credit unions. Building societies and mutual-owned banks have total assets of almost £650 billion. They hold residential mortgages of over £485 billion, 29% of the total outstanding in the UK. They are also helping 23 million people build their financial resilience, holding over £485 billion of retail deposits, accounting for 23% of all such deposits in the UK. Building societies and mutual-owned banks account for 47% of all cash ISA balances. With all their headquarters outside London, building societies employ around 52,300 full and part-time staff. In addition to digital services, they operate through approximately 1,300 branches, holding a 30% share of branches across the UK.

BSA building societies regularly access Bank of England (BoE) facilities and in particular the BoE reserve account as well as other facilities. The BSA also represents 7 of the largest credit unions. Credit unions do not currently have access to the Sterling Monetary Framework (SMF) despite undertaking maturity transformation, including offering long-term mortgages funded by short-term retail deposits. Some credit unions are larger and more established than the smallest banks and building societies. As such, the lack of access to credit unions is anti-competitive and creates potential financial stability risks within the credit union sector. However, given that credit unions do not currently have access, our comments relate to the impact on building societies.

### **Executive summary**

The BSA welcomes the PRA's consultation CP5/26 on modernising the liquidity policy framework. We support the overall direction of travel and, in particular, the increased focus on operational readiness, monetisation risk and the practical usability of liquidity resources in the early stages of stress. We agree that there is no need to change the calibration of the LCR or NSFR at this time.

Building societies already have well-established and robust liquidity risk management frameworks, including stress testing, ILAAP and governance arrangements in place. As such, the proposals should therefore be implemented by building on these existing structures, rather than requiring new or duplicative processes. Ensuring sufficient flexibility for firms to adapt their current frameworks will be critical to achieving proportionality and minimising unnecessary implementation burden, particularly for smaller and less complex firms. As such, we encourage supervisors to recognise the diversity of firms' business models and access to monetisation channels, and act proportionately.

The PRA also proposes that firms incorporate a sudden and severe stress scenario focused on the first seven days of a liquidity stress. This reflects the pace of recent stress events, which we support. However, the proportionality and practical value of

a seven-day horizon will depend on how it is applied across different firm business models and liquidity profiles, including assumptions around access to central bank facilities in the earliest days of stress, and avoid unintended incentives for firms to hold materially higher levels of liquidity than would otherwise be necessary. We would also note that for the building society business model, our members already apply severe retail outflows through existing stress scenarios and there is a limit to how realistic a shorter scenario maybe given building societies have a materially different funding model to recent failures like Silicon Valley Bank. As such, we have understood that the new scenario may be similar to existing scenarios albeit over a shorter time horizon and that it should be calibrated as severe but plausible rather than a reverse stress test.

The BSA supports the PRA's intention to move away from the current PRA110 monetisation assumptions and towards greater reliance on firms' internal stress testing and ILAAP frameworks. We agree that the existing PRA110 approach requires reform; however, the effectiveness of the proposed changes will depend on whether they meaningfully address current limitations and avoid replacing reporting requirements with equally burdensome documentation expectations. So while we support that proposed streamlining, we believe that there remains scope for further simplification and rationalisation of the PRA110 return.

Extending monetisation testing requirements to Level 1 assets represents a meaningful expansion of operational testing expectations, particularly for building societies whose liquidity buffers are already heavily concentrated in cash, central bank reserves and high-quality sovereign assets. We consider it important that the PRA ensures flexibility over the frequency, scope and depth of testing, and avoids duplication with existing internal exercises.

For building societies, any increase in the intensity or scope of monetisation testing for Level 1 assets should be demonstrably valuable. Where assets such as cash, central bank reserves and high-quality sovereign bonds are already immediately usable and subject to existing testing and controls, more frequent or granular testing may deliver limited additional prudential insight.

The BSA strongly agrees with the PRA's aim of removing any residual stigma associated with the use of BoE facilities, reinforcing that such facilities should be treated as a normal component of liquidity risk management as well as being an emergency backstop. However, even in the absence of supervisory stigma, firms' decisions to use central bank facilities will continue to be influenced by commercial considerations.

We reiterate the points set out in our January 2025 response to the BoE's discussion paper on transitioning to a repo-led operating framework.<sup>1</sup> In particular, we remain concerned that the BoE's approval and due-diligence timelines for certain collateral types, including mortgage assets, can be lengthy and remain influenced by factors outside firms' direct control. These operational constraints mean that the pace and

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<sup>1</sup> See [BSA responds to the Bank of England discussion paper on transitioning to a repo-led framework](#)

effectiveness of implementation will depend not only on firms' actions, but also on external processes and BoE capacity.

### **Overall assessment of the proposals**

The BSA welcomes the PRA's emphasis on strengthening firms' operational readiness and their ability to access liquidity in practice, particularly in the very early stages of a liquidity stress. These proposals reflect lessons learned about the importance of rapid early-stage outflows and firms' operational ability to monetise assets in practice, alongside existing liquidity requirements.

The BSA also welcomes that CP5/26 does not propose changes to the Liquidity Coverage Ratio (LCR) or the Net Stable Funding Ratio (NSFR). Instead, the proposals focus on strengthening liquidity expectations including firms' internal stress testing, monetisation planning, governance and operational readiness. Framing the proposals in this way makes clear that the PRA is seeking to improve the practical effectiveness of the existing framework.

In many cases, these proposals build on practices that firms already undertake within their existing ILAAP, stress testing and liquidity risk management frameworks, rather than representing a fundamental departure from the current regime. Therefore, the PRA should make clear that firms may satisfy the new expectations by adapting and enhancing existing frameworks.

### **Proposal-by-proposal response**

#### **Proposal 1: Assess composition of liquidity resources and monetisation risk**

The BSA supports the PRA's proposal to strengthen firms' assessment of liquidity composition and monetisation risk, recognising that recent stress events have demonstrated that liquidity pressures can emerge more quickly than previously assumed. We also support the shift from a focus on marketable asset risk to a broader assessment of monetisation risk, as this better reflects recent experience, where the key issue was not whether assets were theoretically liquid, but whether firms could convert them into cash quickly and reliably in practice, taking account of operational processes, market functioning and access to central bank facilities.

We support the proposal for firms to include a sudden and severe stress scenario focused on the first seven days of a liquidity stress. In our view, firms should have flexibility to determine how best to incorporate this requirement within their existing stress testing approaches.

It is crucial to recognise that liquidity risk can differ markedly across business models, reflecting differences in funding structures, depositor bases, and access to funding markets. The speed and nature of liquidity outflows observed in individual stress events may not be directly applicable across firms, and there is a risk that recent stress episodes characterised by highly digital, concentrated and non-sticky deposit bases may unduly influence calibration, resulting in assumptions that are overly severe for firms with more granular, retail funding models. While it is appropriate to reflect the increasing role of digital channels in shaping depositor behaviour, it remains important that stress assumptions are calibrated proportionately to underlying funding characteristics. At the same time, it would be helpful for firms to have access to appropriate reference data or industry evidence to support calibration of early-stage outflows and to inform ALCO discussions and decision making.

We also note that the proposed seven-day stress scenario may require firms to consider a period in which they may not have access to BoE facilities. For example, where a stress arises mid-week, the timing of operations such as the ILTR auction, may mean that this liquidity is not available within the first seven days, for example, if a stress hits on a Tuesday afternoon, the next ILTR auction cash would be received some 9 days later. We therefore support that firms should consider scenarios in which central bank facilities are unavailable in the early stages of stress. In practice, this could result in firms holding larger or more conservative liquidity buffers than under the current framework, notwithstanding that the PRA has not proposed an explicit increase in quantitative requirements.

The proposals also introduce new documentation expectations around firms' assessment of frictions to monetisation. Firms should have flexibility in how they meet the new requirements and document their assessment of frictions to monetisation. Firms should be able to build on existing stress testing, documentation and governance materials where these already provide a credible assessment of early-stage liquidity risk and of operational or governance frictions to monetisation. In particular, firms should be able to reflect practical considerations affecting access to liquidity, including operational readiness to use central bank facilities. This may include factors such as familiarity with access processes, maintenance of credentials, and the robustness of internal arrangements to avoid single points of failure.

We broadly welcome the intent of the proposal to remove the requirement for firms to report monetisation assumptions through the PRA110 and to shift the supervisory focus towards internal liquidity stress testing and the ILAAP.

This is consistent with the wider project to reduce the burden of regulatory reporting where data is no longer required. However, feedback from BSA members suggests this change to PRA110 is unlikely to materially reduce reporting burden or validation effort, as the elements being removed are not the most operationally complex parts of the return. More fundamentally, members have consistently raised concerns that the PRA110 is too granular, assumption-heavy and poorly aligned with how building societies manage liquidity risk in practice. We therefore support removal of the monetisation element, but consider it should form part of a broader review and simplification of the PRA110, as set out in the BSA's response to DP1/26.<sup>2</sup> A broader simplification would better align reporting requirements with firms' internal risk management and with the PRA's increasing reliance on internal stress testing and ILAAP-based assessments.

We would also encourage the PRA to consider how these changes are implemented in practice within the existing PRA 110 template. Feedback from members suggests that even relatively small changes to individual fields can have unintended consequences for the overall structure and functionality of the return, particularly where firms rely on automated processes and internal systems configured around the current format.

We also note that the proposal does not reduce the need for firms to assess monetisation risk, but instead introduces a clearer expectation that these assumptions and analyses should be developed and documented within internal stress testing frameworks and the ILAAP.

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<sup>2</sup> See [BSA response to DP1/26](#)

## **Proposal 2: Remove exemption for Level 1 Assets (including sovereign bonds) from the LCR Operational Requirement for monetisation testing**

We understand the logic behind Proposal 2, particularly the PRA's focus on ensuring that liquidity resources are not only held but are operationally usable in practice during a period of stress.

However, extending monetisation testing requirements to Level 1 assets represents a meaningful expansion of operational testing expectations, particularly for building societies whose liquidity resources are already heavily concentrated in cash, central bank reserves and high-quality sovereign assets. For many firms, the additional prudential insight gained from frequent or highly granular testing may be limited.

Many building societies already undertake internal exercises to test access to liquidity and central bank facilities. For some building societies, however, this proposal would introduce a new requirement with limited additional prudential benefit. The PRA should acknowledge this and allow flexibility in implementation, particularly so that expectations can be applied in a way that reflects existing capabilities and business models.

In particular, we consider that the frequency of monetisation testing should be calibrated on a proportionate and risk-based basis. While regular testing has a role in demonstrating preparedness, it should not be overly frequent. Annual testing, or less frequent where appropriate, may be sufficient, especially for smaller firms or SDDTs with simpler liquidity profiles.

We also believe there would be value in clarifying the intended purpose of monetisation testing. In practice, it appears to serve multiple objectives: demonstrating operational capability, evidencing market liquidity under stress, and in some cases ensuring that firms can transact without signalling stress to counterparties. These objectives are distinct and may require different approaches. Greater clarity on the primary objective would help firms design proportionate and effective testing frameworks.

Relatedly, expectations around monetisation channels should remain aligned with firms' business models. Some building societies have limited or no access to third-party repo markets, reflecting their business models and scale. This reinforces the need for monetisation expectations to remain aligned with firms' actual liquidity management approaches. Where firms do rely on third-party repo or other market-based channels, more regular testing may be appropriate.

We also note that monetisation testing can involve real financial costs, including spreads, haircuts and transaction fees. Where firms are required to execute transactions, this may result in material costs and market activity without commensurate supervisory benefit. We therefore suggest allowing alternative approaches, such as price discovery exercises or indicative bids, rather than requiring execution in all cases.

Finally, not all high-quality liquid assets behave equally in stress. There are important differences in liquidity, market depth and price dynamics between asset classes. We encourage the PRA to ensure that both the frequency and depth of testing are

appropriately calibrated to the underlying liquidity characteristics of the assets held, so that the framework remains risk-sensitive and proportionate.

### **Proposal 3: Clarify the role of central bank facilities within the prudential liquidity framework**

The BSA supports the PRA's proposals to clarify the role of central bank facilities within the prudential liquidity framework, including how they should be reflected within firms' internal liquidity metrics such as OLAR, subject to operational readiness tests being met. We also support the PRA's intention to reinforce that access to BoE facilities should be treated as a normal element of liquidity risk management, rather than solely as an emergency backstop.

In line with the BSA's January 2025 response to the BoE's discussion paper on transitioning to a repo-led operating framework, we reiterate our support for:

- stigma-free use of central bank facilities in business-as-usual conditions; and
- recognising these facilities explicitly within firms' liquidity stress testing and contingency planning.

It is important to recognise that firms' decisions will also be influenced by commercial considerations. Use of central bank facilities entails pricing, collateral and encumbrance implications, as well as potential market and investor perceptions, which are distinct from supervisory stigma. These factors are particularly relevant for mutuals competing in retail lending and savings markets. As supervisory expectations increasingly encourage the incorporation of central bank facilities into liquidity planning, it will be important that the PRA recognises these commercial realities when assessing firms' liquidity strategies.

Firms generally incorporate regular, market-wide facilities such as ILTR within stress testing frameworks, while on-demand facilities such as the DWF are not typically assumed as core liquidity resources. We agree with this distinction. However, recent changes to simplify and reduce DWF pricing were clearly intended to improve the facility's usability and support its use as a more accessible part of firms' liquidity planning.<sup>3</sup> In that context, it would be helpful for the PRA to clarify how firms are expected to treat the DWF in practice, particularly how requirements for operational readiness should be reflected in stress testing and OLAR, where such facilities are not assumed as part of core liquidity resources.

As part of the work to ensure that collateral is pre-positioned and available to be utilised, the Bank of England needs to streamline its processes for approving collateral beyond the current elongated timescales.

### **Proposal 4: Managing collateral**

The BSA supports the PRA's focus on improving firms' understanding of the liquidity capacity created by pre-positioned collateral and their ability to draw on this capacity in stress.

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<sup>3</sup> [Update to Discount Window Facility pricing – Market Notice 27 March 2026](#)

While firms can and should improve their own readiness, some key constraints on mobilisation speed remain external to firms, including BoE approval timelines for its due-diligence.

We welcome the clear direction of travel in the proposals towards earlier and more front-loaded liquidity preparedness, and the recognition of pre-positioned collateral as a valuable source of additional resilience beyond firms' core stress tests. We also recognise that the BoE is itself seeking to improve collateral eligibility and operational processes, including through steps to streamline due diligence and support faster mobilisation.<sup>4</sup> Continued progress in the speed, predictability and transparency of collateral eligibility and operational processes will be critical to ensuring that system-wide capabilities develop in step with prudential expectations.

As we have noted previously in our response to the BoE's discussion paper on transitioning to a repo-led operating framework, building societies' mortgage-heavy balance sheets mean that access to liquidity through central bank facilities can depend on collateral mobilisation processes that are influenced by external operational and due-diligence timelines. In particular, the approval and pre-positioning of mortgage collateral with the BoE can vary significantly, with BSA members noting that initial pool establishment can be a lengthy and complex process which can take 12-18 months, often driven by legal requirements, whereas subsequent top-ups may be completed more quickly. The lack of predictability and transparency around timelines, with firms often unable to reliably anticipate how long it will take to create or expand collateral pools, can make it more difficult to plan liquidity usage and to align operational readiness with prudential expectations, even where overall lead times may be manageable within firms' forecasting horizons.

As expectations increase for firms to pre-position larger volumes of collateral, the operational burden on the BoE is also likely to grow. In this context, continued progress in improving the speed, predictability and transparency of collateral eligibility processes will be important, alongside consideration of how operational capacity, potentially including the use of third-party support in early-stage due diligence to ensure that system-wide capabilities keep pace with prudential expectations.

We welcome the fact that CP5/26 does not prescribe a specific frequency for monetisation testing or for the assessment of central bank drawing capacity, and encourage that the PRA is proportionate and allows greater flexibility to smaller non-systemic firms where the costs to monetising liquidity are proportionately higher.

Given that Proposal 4 forms part of implementation phase 1 and will apply immediately once rules are made, supervisory judgement will be important to allow a pragmatic and proportionate implementation that reflects onboarding timelines and operational dependencies, including those outside firms' direct control.

### **Proposal 5: Other legal requirements**

Building societies already have established liquidity governance, ILAAPs and contingency planning frameworks in place, including board oversight, stress testing and operational readiness arrangements. The BSA therefore agrees with Proposal 5, provided that CP5/26 is implemented in a way that allows firms to update and

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<sup>4</sup> [Resilience and readiness across the Sterling Monetary Framework](#)

adapt these existing frameworks, while streamlining the guidance and removing obsolete EU references. We also propose that the PRA could be clearer on which aspects apply to all firms and which are only relevant to firms that do not qualify for the small domestic deposit-taker (SDDT) regime. As such, additional proportionality for SDDTs, such as lower frequencies of testing would be welcome given the proportionately higher costs of monetising liquidity for smaller firms.

The BSA would not support an interpretation of the proposals that results in routine operational matters being escalated unnecessarily to boards or management bodies, where existing ALCO and ILAAP governance arrangements are already effective.

## **Q1 Implementation**

We recognise the rationale for the PRA's two-stage implementation approach and welcome the intention to provide firms with additional time to embed more complex changes. We welcome the changes to PRA110 applying with immediate effect, however, we note that other elements of Phase 1, including expectations around central bank facilities and pre-positioned collateral, may depend on external operational processes outside firms' direct control. In this context, supervisory judgement and pragmatism will be important in the early period. We also encourage the PRA to consider whether a 12-month transition will be sufficient in all cases, particularly given uncertainty around the timing of final rules and the interaction with firms' existing ILAAP and supervisory review cycles.

Implementation timing should also take account of the interaction with the SDDT L-SREP cycle, to enable new requirements to be incorporated into firms' ILAAP processes in a coherent and proportionate way. SDDT firms in particular may operate on longer ILAAP cadences, consistent with the expected two-year update cycle, and a fixed 12 month transition could result in firms needing to bring forward ILAAP production or undertake out-of-cycle updates to incorporate elements such as the new 7 day stress scenario. This would risk undermining the intended proportionality of the SDDT framework. Allowing flexibility in implementation timing, supported by supervisory judgement and pragmatism, will help ensure that changes are embedded effectively within existing governance frameworks.

## **Q2 Cost benefit Analysis**

The CBA has estimated one-off compliance costs to the industry of £7.2m and ongoing costs of £0.6m relating to updating policies, processes, systems and training. The CBA also states that the aggregate impact on interbank, Gilt, repo and money markets is expected to be minimal.

We request that the Bank is more transparent in the assumptions that sit behind the £7.2m and £0.6m annually. We also challenge the statement that these changes will have no impact on markets. By contrast, while we support the shifting supervisory expectations that encourage firms to test monetising their liquidity buffers, this is not without costs. Those costs are proportionately higher on smaller firms given they are price-takers rather than price-makers and given the smaller size of the liquidity buffer in nominal terms. As such the PRA should consider having less frequent expectations for monetising assets for SDDTs compared to larger firms.