Building Societies Association

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Response to CP11/25 - Discontinuing SS20/15: Supervising building societies' treasury and lending activities

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 have total assets of almost £525 billion and, together with their subsidiaries, hold residential mortgages of over £395 billion, 24% of the total outstanding in the UK. They also hold £399 billion of retail deposits, accounting for 19% of all such deposits in the UK. Building societies account for 40% 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.

Executive summary

The BSA has long advocated for the retirement of SS20/15, also known as the 'building societies sourcebook.' We strongly welcome the Prudential Regulation Authority's (PRA) proposal to do just that as set out in CP11/25. Its continued operation has been anti-competitive for building societies compared to banks that have not been subject to the limits set by the PRA. We believe that risk management in building societies has become significantly more sophisticated since the introduction of the sourcebook and it has therefore served its purpose and it is an appropriate time for it to be retired. We do not see this as de-regulation but rather an acknowledgement that the world has moved on. This will bring in a new era for building societies where they will be able to tailor their risk management framework to their business model and be on a more level-playing field with banks.

Consultation Response

The origins of the sourcebook date back to the 1990s when it was useful in the absence of any other guidance on supervisory expectations for treasury or lending risks. However, the limits and approaches, and the accompanying governance, has become more akin to rules than guidance. The sourcebook is restricting building societies from being able to consider the full range of products and innovation and making agile business decisions as necessary in the increasingly dynamic market.

The BSA is strongly of the view that it is not the role of the regulator to set the risk appetite and detailed risk limits for individual firms, particularly in such a way as the sourcebook currently operates. For example, limiting fixed rate savings and lending runs counter to market trends, customer preferences, and conduct regulation, and is only one way to mitigate the risk of margin compression and basis risk. This is not forgetting that banks are not under the same restrictions and are able to freely set their risk appetite for fixed rate lending and savings. The proposals under CP11/25 do not affect a society's requirements under the Consumer Duty, capital and liquidity adequacy or the risk management requirements in the PRA Rulebook, all underpinned by the Senior Manager's Regime, as just a few of the other

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safeguards in place for sound risk management and robust supervisory oversight. We strongly believe that building societies can use existing tools and expertise to set a more accurate and resilient risk management framework which is crucial in the operation of a healthy financial services industry.

Building societies recognise that they will need to ensure that they have the adequate capability and capacity to set their risk management framework going forward and to manage any changes in a controlled and methodical way. It is imperative that the PRA allows building societies to make appropriate changes and do not look to the sourcebook limits as a measure of 'best practice' after its retirement - to do so would mean creating a shadow sourcebook without oversight or scrutiny, and continuing to stop building societies from taking the appropriate level of risk when it may not be justified.

The PRA is proposing that the removal of the sourcebook can take place from 1 January 2026. While societies will take some time to gradually evolve their approaches, we encourage the PRA to look to retire the sourcebook at a sooner date, as soon as it has concluded its review.

In addition, to the removal of the sourcebook for building societies, we note there are a number of cross references for credit unions in SS2/23. While we support that there may be some elements of the guidance in SS20/15 that could be of interest to credit unions, the limits in the appendices are not appropriate for a credit union model where the business model and risks are different as we set out in our response to the consultation.[1] As such, we support the removal of those cross references from SS2/23 in line with the retirement of SS20/15 and stress that these references do not continue on in a shadow way for credit unions.

[1] See BSA Response to CP7/22