Building Societies Association

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BASEL COMMITTEE CONSULTATION ON NET STABLE FUNDING RATIO

RESPONSE FROM THE BUILDING SOCIETIES ASSOCIATION (UK)

The Building Societies Association (BSA) represents mutual lenders and deposit takers in the UK including all 45 UK building societies. Mutual lenders and deposit takers have total assets of over £380 billion and, together with their subsidiaries, hold residential mortgages of over £230 billion, 18% of the total outstanding in the UK. They hold over £230 billion of retail deposits, accounting for 19% of all such deposits in the UK. They employ approximately 39,000 full and part-time staff and operate through approximately 1,600 branches.

The BSA welcomes the opportunity to respond to the Basel Committee's consultation on the proposed revisions to the NSFR. The building society model is prudently based on the stable funding provided by a society's individual customer-members, with a limited role for short term wholesale funding – which some of our members hardly need to use at all. Accordingly the BSA can support the aims of the NSFR outlined in paragraph 1 of the Consultation Document: limiting overreliance on short-term wholesale funding; encouraging better assessment of funding risk across all on- and off-balance sheet items; and promoting funding stability.

In this response we do not address the overall design of the NSFR, concentrating instead on the key changes listed in Annex 1 to the Document, and the three principal review areas mentioned in paragraph 6: the impact on retail business activities; the treatment of short term matched funding of assets and liabilities; and analysis of sub-one year buckets for both assets and liabilities. Within those topics we comment only on the changes of direct relevance to our members.

The BSA is a member of the European Association of Cooperative Banks. ***We support the comments made by the EACB in their response, especially the need to address the specificities of cooperative banking networks, such as the stable deposits placed by local banks with the central institution, and the loans from the central institution to the local banks.***

Impact on retail business activities

We strongly support the higher ASF factors for both stable and less stable non-maturity deposits from retail and SME customers. The experience of our member building societies through the banking crisis certainly confirms that these categories of deposits from individuals provide stable funding – indeed, our members are required by law to derive at least 50% of their funding from this source, and the average is probably around 70%. Supported by other post-crisis measures, the position of retail depositors is even stronger than before, so we welcome further recognition of the extra stability that results.

On the other side of the balance sheet, we support the lower RSF factors for unencumbered loans to retail and small business customers that do not qualify for a 35% risk weight. The ready monetisability of such loans - in our members' case, the higher LTV part of their residential mortgage books – through use as collateral for secured borrowing has recently been underlined through developments including the pre-positioning and acceptance as collateral of these assets at the central bank.

The building society lending model is broadly *"originate and hold"*, rather than *"originate and distribute".* Nevertheless, some of our members do maintain a prudent engagement with the securitisation markets – indeed, high-quality residential mortgages are readily securitisable, and once securitised (as recognised in their treatment for the LCR) are reasonably liquid, being monetisable both by outright sale and, more importantly, through use as collateral. We do not therefore support the attribution of a 50% RSF to such holdings – especially in comparison with the 15% RSF attributed to higher rated corporate debt securities – some of which may be quite illiquid (unlike commercial paper) even if highly rated. Our larger members also issue covered bonds, and the performance and liquidity of covered bonds has generally been recognised in Europe through the crisis. So we disagree with the RSF relativities for these kinds of securities ; we support 15% RSF for covered bonds, but 15% is too low for potentially illiquid corporate debt, and 50% is much too high for top quality RMBS.

Analysis of sub one year buckets

We support the additional granularity now proposed for liabilities under one year, with a proposed 50% ASF factor for certain funding sources with residual maturities between six months and one year. To treat all funding below one year as making no contribution to stable funding was in our view a mistake – the revised proposal provides incentives to raise funding for more than six months, rather than two or three months. It is also helpful that when medium term funding (such as a three year fixed term retail deposit product) approaches the final year to maturity, there is no longer a "cliff edge" , with ASF dropping from 100% to 0% overnight as the residual maturity falls below 365 days. Distinguishing 6-12 months from 0-6 months does in our view provide sufficient granularity without excessive complexity.

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