Consultation paper: Strengthening the Resilience of the Banking Sector

Dear Sir/Madam,

The Co-operative Group welcomes the opportunity to comment on the Consultation paper: Strengthening the Resilience of the Banking Sector ("the Consultation paper")

This response is made by The Co-operative Group ("CG", a UK mutual with a wholly owned subsidiary bank, The Co-operative Bank plc ("CB")), in relation to the need for certain exceptions to be made to enable a form of non-(or limited-) voting share to be issued by CB which both qualifies as core tier 1 capital and is a viable investment for external capital providers.

CB is a domestic institution that does not fall within the category of large internationally active banks to which the Committee's remit extends. Nevertheless, these are our general comments on specific concerns arising from the Consultation Paper in relation to the need above. CB supports the view of the Building Society Association and the EACB in their more comprehensive responses to the Consultation Paper.

Section II – Strengthening the global capital framework

Recognition that the regime should accommodate non-joint stock (NJS) companies in paragraph 68 is helpful. However, these proposals, also need to recognise the position of joint stock subsidiaries of NJS companies. Special consideration has to be given to the fact that in some countries, like the UK, it is not possible for a co-operative (or certain other types of mutual) to operate a banking business other than through a joint stock company subsidiary (i.e. a non-mutual company), with the group as a whole run along mutual principles. Such banks should be able to issue instruments with limited voting-rights as core tier 1 capital to external investors in order to preserve mutual/co-operative credentials. They should be afforded the same derogation as the Basel Committee contemplates for non-joint stock companies, including the possibility to issue capped instruments. In this context, national supervisors should be able to take account of the fact that shares held by the mutual/co-operative group in the bank fulfil a different function (including control rights) compared to external investments with limited voting rights.
In paragraph 87, the reference to non-voting shares of banks being "identical to voting common shares of the issuing bank in all respects except the absence of voting rights" is unnecessarily restrictive. In our view, there needs to be further flexibility for joint stock subsidiaries of mutual groups to issue different types of core tier 1 instrument internally (to the parent) and externally (to other capital providers).

We also seek clarification that footnote 19 of paragraph 87 provides sufficient flexibility for regulators to permit caps to mutuals (and their subsidiaries) in order to preserve the key mutual principle of limited interest on capital. The EACB response provides powerful arguments as to why caps should be permitted for mutuals. Paragraph 5 of the criteria for classification as common shares for regulatory capital purposes does not currently explicitly provide for NJS companies (or their subsidiaries) to cap distributions.

Footnote 19 provides helpful recognition that the regime should accommodate NJS companies, but it also needs to recognise their joint stock subsidiaries for the reasons covered above. In footnote 19, reference to supervisors exchanging information on how they apply the criteria to NJS companies is also helpful in ostensibly giving national supervisors discretion. However, the quest for 'consistent implementation' must also recognise the different natures of different types of NJS company and their groups across Europe, and therefore 'consistency' does not always mean 'exactly the same'.

Please do not hesitate to contact me should you have any questions.

Yours faithfully,

Katrina Lawton
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The Co-operative Bank p.l.c