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GUIDELINES ON ASSESSMENT OF O-SIIs : EBA/CP/2014/19

RESPONSE FROM THE BUILDING SOCIETIES ASSOCIATION (UK)

The Building Societies Association (BSA) is pleased to respond to the EBA's consultation on guidelines for assessment of other systemically important institutions (O-SIIs). The BSA represents all 44 UK building societies, who have total assets of over £330 billion and together with their subsidiaries, hold residential mortgages of over £240 billion, 19% of the total outstanding in the UK. They hold over £240 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 1,550 branches. The BSA's membership includes both a few large institutions which could be assessed above the O-SII threshold, and a large number of very much smaller institutions which are not remotely systemic. The focus of this response is on minimizing the burden on such small institutions of the assessment exercise.

General remarks

We understand the rationale for allowing a degree of supervisory discretion to national authorities in setting the threshold score (CP, paragraph 9), to cater for member-state specificities, in particular to generate a recognisably homogeneous and credible group of O-SIIs.

We think the proposed indicators, and weighting coefficients, in Table 1 provide a reasonable basis for O-SII assessment. We support the equal weight given to substitutability/ infrastructure, complexity / cross-border, and interconnectedness, alongside sheer asset size. The list of additional indicators in Annex 2 looks comprehensive.

Exclusion of small institutions – Question 2

We strongly support the EBA's proposal in principle to allow national authorities to exclude the very smallest institutions from the scope of assessment. There certainly are member states where small institutions do not pose any systemic threat to the domestic economy – and one of those states is the UK. The UK's competent authority, the PRA, already divides institutions into five impact categories, taking into account size, complexity, interconnectedness and nature of business. The top category is undoubtedly systemic, while the bottom two categories are undoubtedly non-systemic – that is, they are already judged to have very little capacity (category 4) or virtually no capacity (category 5) to cause disruption to the UK's financial system. The option to exclude these small institutions will certainly reduce the administrative burden for these institutions, and there is no perceptible risk that the analysis in the UK could be distorted by excluding them. Indeed, as we argue below, we think the EBA should modestly increase the maximum entity size that can be excluded, to 0.02% of total banking system assets. The use of this option would rightly remain one for individual member states to decide.

The EBA's initiative to permit the exclusion of small institutions is an excellent example of proportionality in practice, and is well-founded on cost-benefit considerations. Even at the level of 0.01% of total banking system assets, the CP explained that over 50% of institutions covered in the simulation exercise would be excluded. The reduction in administrative burden will be of particular benefit because many of the smaller institutions fall outside the scope of FINREP and therefore additional reporting would be needed purely to provide the indicators in Table 2 of Annex 1. Nor do the smallest institutions derive any direct benefit from the exercise, as it is never contemplated that they themselves might be O-SIIs.The use of an aggregate synthetic proxy – a virtual entity, as described in paragraph 10 - for the excluded entities removes still further any possibility of distortion.

We have modelled the impact on our own members of excluding institutions up to 0.01%, and up to 0.02%, of banking system assets. At 0.01%, the assessment would still have to cover at least 20 of our 44 members, and the smallest entity to be included would be a small local building society (i.e. functionally a mutual savings and mortgage bank) with only 11 branches, assets of around £ 700 million, and minimal complexity, interconnectedness or infrastructural involvement. At our proposed ceiling of 0.02%, the assessment would still cover our largest 12 members, and would still include all those societies with either a national presence, or a dominant regional presence. Flexibility within a ceiling of 0.02% would allow the inclusion of all those entities already judged by the PRA capable of causing even minor disruption to the UK financial system.

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