

Legislative changes to the Building Societies Act 1986

A consultation

November 2006



HM TREASURY



HM TREASURY

Legislative changes to the Building Societies Act 1986

A consultation

November 2006

© Crown copyright 2006

Published with the permission of HM Treasury on behalf of the Controller of Her Majesty's Stationery Office.

The text in this document (excluding the Royal Coat of Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any enquiries relating to the copyright in this document should be sent to:

HMSO
Licensing Division
St Clements House
2-16 Colegate
Norwich
NR3 1BQ

Fax: 01603 723000

E-mail: hmsolicensing@cabinet-office.x.gsi.gov.uk

HM Treasury contacts

This document can be found on the Treasury website at:

hm-treasury.gov.uk

For general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: public.enquiries@hm-treasury.gov.uk

ISBN-10: 1-84532-209-6

ISBN-13: 978-1-84532-209-0

This was printed on at least 75% recycled paper.
When you have finished with it please recycle it.

PU119

CONTENTS

	Page
Executive Summary	3
Chapter 1 Introduction	5
Chapter 2 Summary of questions	9
Chapter 3 Policy Issues	11
Annex A Simplified funding limit calculations	17
Annex B Financial limits and thresholds	19
Annex C Partial RIA on minor legislative changes to the Building Societies Act 1986	21
Annex D Modification of the funding limit calculations	27
Annex E Accounts and Related Provisions	31

EXECUTIVE SUMMARY

HM Treasury is conducting a 12-week consultation aimed at seeking stakeholders' views on some suggested changes to the Building Societies legislation. The purpose of these changes is to ensure that the legislation remains relevant to the needs of societies.

The Building Societies Act 1986 which provides the legal framework for building societies in the UK was last updated in 1997 however certain aspects of the building societies legislation are now in need of modernisation.

Two key areas have been identified as requiring attention. These are in relation to

- the treatment of building societies' offshore deposits.
- the content of building societies' summary financial statements, directors' reports and annual business statements and certain financial amounts specified in the Building Societies Act 1986.

This consultation document should be read in conjunction with:

- The draft partial Regulatory Impact Assessment attached at Annex C which sets out options, and considers qualitative and where possible quantitative costs and benefits and
- The draft Statutory Instruments which will introduce the proposed legislative changes at Annexes D and E.

This consultation document invites views from building societies in the UK, the general public as well as stakeholders within industry, Trade Associations, other Government Departments and academia.

The feedback to this consultation will provide valuable information, which can feed into the final Regulatory Impact Assessment and the Statutory Instruments to be laid before Parliament.

The consultation will be open from 9 November 2006 to 1 February 2007. Please ensure we receive your response by the closing date.

This document can also be accessed via the Treasury website at www.hm-treasury.gov.uk/consultations. Paper copies are also available upon request from the HM Treasury Correspondence and Enquiry Unit by email to ceu.enquiries@hm-treasury.gov.uk or by telephone on 020 7270 4558.

INTRODUCTION

Background **1.1** Building societies are organisations, owned by their members, which pay interest on deposits and lend money on the security of property to enable members to buy their own homes. There are 61 building societies in the United Kingdom (“UK”) with total assets over £280 billion. About 15 million adults have building society savings accounts and over 2¾ million adults are currently buying their homes with the help of building society loans. The Building Societies Association (“BSA”) is the representative group for **all** building societies in the UK.

1.2 Building societies have diversified in recent years and a number now offer, among other services, current accounts, credit cards, cash machines, travel money, unsecured loans, various types of insurance and estate agency services. They are regulated by the Financial Services Authority (“FSA”) and subject to building societies legislation, principally the Building Societies Act 1986 (“The BS Act 1986”). That Act was substantively revised by the Building Societies Act 1997 and by and under the Financial Services and Markets Act 2000 (“FSMA 2000”).

1.3 HM Treasury (“HMT”) following discussions with the BSA is holding a public consultation on making some minor changes to the building society legislation. The proposed changes will remove anomalies and update the existing legislation so it is better aligned with Companies legislation where that is appropriate.

1.4 The following areas have been identified for consultation.

- Offshore Deposits: a review of how deposits from a building society’s subsidiaries should be treated in calculating their funding limits
- Summary Financial Statements (“SFS”), Directors’ Reports (“DR”) and Annual Business Statements (“ABS”): how to facilitate the preparation of SFS, DR and ABS by building societies that prepare accounts in accordance with International Accounting Standards (“IAS”) financial amounts specified in the BS Act 1986: Updating financial limits and thresholds for building societies in line with inflation.

Devolution **1.5** Building society law is an area, which is reserved to Westminster under the Scottish, Welsh and Northern Irish devolution legislation. The BS Act 1986 and the legislation made under that Act therefore applies to the UK.

Policy responsibility **1.6** HMT is responsible for the policy relating to the mutuals sector in general, including building societies. The BS Act 1986 gives HMT power to make statutory instruments (Orders, Regulations etc) in relation to certain matters affecting building societies, including those matters mentioned in paragraph 1.4.

1.7 Following consultation and agreement, HMT is aiming to lay two statutory instruments before Parliament to give effect to the changes described in chapter 3.

Why consult? **1.8** This consultation is consistent with the Government’s aim to engage with industry and the public in order to modernise legislation affecting UK businesses. The resulting changes will help reduce some of the burdens on building societies and facilitate accurate communication between building societies and their members.

How to respond **1.9** HMT has had regular bilateral meetings with the BSA. Consultation documents will be sent to the BSA, all of the 61 building societies in the UK, academicians as well as interested stakeholders in the financial services sector. The consultation document will also be posted on the HMT public website and printed copies available upon request.

1.10 HMT is proposing a public consultation lasting 12 weeks from 9th November 2006 to 1st February 2007. Please ensure that your response reaches us by the closing date. Please send responses to

Samuel Amissah

Savings and Investment Team

International & Finance Directorate

Room 4W/2

HM Treasury

1 Horse Guards Road

London

SW1 2HQ

Tel: (+44) (0) 207 270 5291

Fax: (+44) (0) 207 270 4694

Email: Samuel.amissah@hm-treasury.x.gsi.gov.uk

Disclosure of responses **1.11** When responding please state if you are responding as an individual or representing the views of an organisation. In accordance with the code of practice on open government, comments will be made publicly available unless respondents specifically request otherwise. In the case of electronic responses, general confidentiality disclaimers that often appear at the bottom of e-mails will be disregarded for the purpose of publishing responses unless an explicit request for confidentiality is made in the body of the response. If you wish part, but not all, of your response to remain confidential please supply two versions – one for publication on the website with the confidential information deleted and another confidential version for the HMT consultation team.

Partial Regulatory Impact Assessment

1.12 A partial Regulatory Impact Assessment (RIA) is published with this document and should be read in conjunction with it. A copy of the Partial RIA can be found on the HMT public website at www.hm-treasury.gov.uk or requested from the HMT correspondence and enquiry unit.

CONFIDENTIALITY DISCLOSURES

1.13 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (“FOIA”), the Data Protection Act (“DPA”) and the Environmental Information Regulations 2004. If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation,

but we cannot give an assurance that confidentiality will be maintained in all circumstances.

1.14 An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department. The Department will process your personal data in accordance with the DPA, and in the majority of circumstances, this will mean that your personal data will not be disclosed to third parties.

FREEDOM OF INFORMATION CONTACT

1.15 Any Freedom of Information Act queries should be directed to:

Correspondence and Enquiry Unit

Freedom of Information Section

HM Treasury

1 Horse Guards Road

London

SW1A 2HQ

Telephone: +44 (0)20 7270 4558

Fax: +44 (0) 207 270 4681

Email: public.enquiries@hm-treasury.x.gsi.gov.uk

2

SUMMARY OF QUESTIONS

2.1 This consultation document seeks consultees' views on a number of issues relating to building societies' offshore deposits, summary financial statements, directors' reports and annual business statements and certain financial amounts specified in the BS Act 1986.

QUESTIONS RELATING TO OFFSHORE DEPOSITS

1. Do you agree that a percentage of individuals' deposits held by a building society's offshore deposit-taking subsidiaries should be excluded from the funding limit calculations?
2. Do you agree that for the purposes of the funding limit calculations, there is in practice little difference between the economic characteristics of individuals' deposits with a building society's offshore deposit-taking subsidiary and members' deposits with a building society held in the form of shares? (See: 3.3 & 3.4 below)
3. If yes, what percentage of total deposits must offshore deposits not exceed in order that they should be disregarded for the funding limit calculations? (a) 5% (b) 10% (c) Other- please state (See: 3.6 below)

QUESTIONS RELATING TO SUMMARY FINANCIAL STATEMENTS, DIRECTORS' REPORTS AND ANNUAL BUSINESS STATEMENTS

4. Do you agree with the proposal that HMT should make legislation to facilitate the preparation of SFS, DR and ABS by building societies that prepare accounts in accordance with IAS or would you prefer the BSA to issue guidance? (See: 3.10-3.16 below)
5. Do you envisage any costs arising out of the proposed changes to the building societies legislation? (See: Partial RIA)

QUESTIONS RELATING TO FINANCIAL AMOUNTS SPECIFIED IN THE BUILDING SOCIETIES ACT 1986

6. Do you agree that the financial limits and thresholds for societies should be updated in line with the proposals suggested in Annex B¹?
7. Please specify if there are any proposals for these financial limits or thresholds you are not in agreement with and reasons why.

¹ Annex B sets out the proposed changes to the statutory limits affecting the nomination of directors and certain transactions between directors and societies. It also proposes an amendment to the fee that may be required of a member seeking to requisition a special general meeting.

A. OFFSHORE DEPOSITS: REDEFINING HOW THE FUNDING LIMIT FOR BUILDING SOCIETIES IS SET

3.1 Building Societies are constrained in their business operations by the statutory requirements that they:

- raise at least 50% of their funds in the form of shares held by individual members of the society; and
- have at least 75% of their lending secured on residential properties.

3.2 The basis on which the statutory funding limits for building societies are calculated is set out respectively in sections 7 and 8 of the BS Act 1986. See simplified definition and illustration at Annex A.

3.3 For a number of building societies (and banks) a small but significant amount of funding is raised through offshore deposit-taking subsidiaries. As at June 2006 just under 2.2% of total building society funding was in the form of deposits by individuals in offshore deposit-taking subsidiaries. However for building societies with such subsidiaries the proportion of their total funding in such form may be significant and distorts their funding limit requirements.

3.4 In practice there is little difference between the economic characteristics of an individual's deposits with a building society's offshore deposit-taking subsidiary and the building society's members' "deposits" held in the form of shares in the society. Both sets of funds are "retail" in nature as opposed to "wholesale".

3.5 It is the view of the BSA that the redefinition of the basis of the funding ratio calculation, will give reasonable parity with banks, without breaching the requirements that (i) a building society's "principal purpose" is making loans, which are secured on residential property, and (ii) building societies are funded substantially by their members³.

3.6 In calculating the funding limit, it is proposed that deposits from individuals with offshore deposit-taking subsidiaries be excluded (subject to a limit of 10 % of total funds) from the calculation of the ratio i.e. disregarded for the purposes of determining the value of "x"⁴ in section 7(2) of the BS Act 1986.

3.7 A change in the basis of the calculation of the funding limit as described above will benefit consumers. By allowing greater access to wholesale funds (as a result of offshore deposits being disregarded) societies will be able to raise more, generally cheaper, wholesale funds thereby facilitating the provision of cheaper mortgages to members.

¹ For building societies retail funding means deposits received from their members who are individuals.

² The FSA describes wholesale funding as: credit institutions (as defined in Article 1 of Directive 2000/12/EC); supranational institutions, national governments and central administrative authorities; large corporates, defined for this purpose as: companies which have called up share capital of £10mn or which meet at least one of the following criteria; total above £100mn, net turnover above £15mn and more than 250 employees.

³ Section 5 (1) of the BS Act 1986.

⁴ See Annex A for the calculation of "x".

3.8 HMT has the power to allow deposits held by an offshore subsidiary to be disregarded when calculating a building society's funding limit by adopting secondary legislation under section 7(7) of the BS Act 1986. HMT has exercised these powers in the past. For example Statutory Instrument 2004/3200 provided for the disregard of certain securitisations (under IAS) by building society subsidiaries for the purpose of the nature limit calculations – to retain the position that applies under UK Generally Accepted Accounting Practices (“UK GAAP”).

3.9 One of the recommendations of the Miles review⁵ on the UK mortgage market was that government should consider lowering the minimum-funding limit by members from the current 50%. It was suggested that a 25% or 30% of building societies' funds would still represent a substantial source of funding. Although this recommendation has not been taken up, the proposal to exclude deposits from offshore subsidiaries from the funding limit calculations would serve to provide extra sources of funding and have a broadly similar effect.

1. Do you agree that a percentage of individuals' deposits held by a building society's offshore deposit-taking subsidiaries should be excluded from the funding limit calculations?
2. Do you agree that for the purposes of the funding limit calculations, there is in practice little difference between the economic characteristics of individuals' deposits with a building society's offshore deposit-taking subsidiary and members' deposits with a building society held in the form of shares? (See: 3.3 & 3.4 above)
3. If yes, what percentage of total deposits must offshore deposits not exceed in order that they should be disregarded for the funding limit calculations? (a) 5% (b) 10% (c) Other- please state. (See: 3.6 above)

B. SUMMARY FINANCIAL STATEMENTS, DIRECTORS' REPORTS AND ANNUAL BUSINESS STATEMENTS: FACILITATING PREPARATION OF SFS, DR AND ABS BY BUILDING SOCIETIES THAT PREPARE ACCOUNTS IN ACCORDANCE WITH IAS

3.10 In accordance with EC Regulation 1606/2002⁶, from 1 January 2005, all listed companies in the UK (and the rest of EU) have to prepare their consolidated accounts based on International Accounting Standards (IAS) rather than UK accounting standards (UK GAAP). Building societies that issue listed securities such as permanent interest bearing shares (PIBS) are therefore required to use IAS.

3.11 Currently, all other societies are allowed to continue using UK GAAP although they may adopt IAS if they prefer. But it is the UK Accounting Standard Board's intention to achieve convergence between IAS and UK GAAP although it is thought this will not happen before 2009. This will mean that any changes to the legislation at this stage for building societies that prepare accounts in accordance with IAS will be useful in the future for all building societies.

⁵ The final report of Professor David Miles' review of the UK mortgage market was published on 12 March 2004. Among the reports recommendations are the removal of obstacles to the development of a market where a larger proportion of mortgages are at interest rates fixed for more than a few years.

⁶ Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

3.12 Accounting under IAS does not affect the fundamentals of managing a building society but reflects a different way of measuring and presenting its performance. All building societies are required by the BS Act 1986 to prepare SFS, DR and ABS. The SFS (which includes a summary of key information from the DR and ABS) is required to be sent to the building society's members. The current requirements are set out in sections, 74, 75 and 76 of the BS Act 1986 and the Building Societies (Accounts and Related Provisions) Regulations 1998⁷. The relevant provisions of the Regulations are based on UK GAAP requirements and do not take account of building societies that prepare accounts in accordance with IAS.

3.13 One consequence of the fact that the relevant provisions of the Regulations do not take account of building societies that prepare accounts in accordance with IAS is that members of such building societies are not properly informed through the SFS of the financial position. For example, derivatives, with their potential for causing volatility, are shown in the balance sheet in the full accounts under IAS, but are not required to be shown separately in the SFS.

3.14 All IAS societies have now prepared their first SFS, DR and ABS using the new standards. An informal review of these by BSA shows inconsistencies, albeit minor, among the SFS of various building societies who prepare accounts in accordance with IAS. However there is the risk that it could confuse members and other stakeholders if they wanted to compare performance. There is also concern that some transactions such as derivatives may not be transparently disclosed in the statements unless societies are required to do so.

3.15 Clearly, BSA could (and did in 2006) issue guidance to IAS societies. However guidance is optional and as a trade body BSA has no remit to enforce change. In any case it would be anomalous for UK GAAP societies to have to follow legislation on aspects of the SFS, DR and ABS while the IAS societies did not. Furthermore, with convergence on the horizon, HMT will have to make changes to the legislation concerning SFS, DR and ABS in future anyway.

3.16 Although doing nothing is an option, it is likely that SFS would be inconsistent between building societies that prepare accounts in accordance with IAS and would not fully meet IAS presentation requirements. This would confuse individual members and other building society stakeholders and goes against drives by government, investors and the media for greater transparency.

4. Do you agree with the proposal that HMT should make legislation to facilitate the preparation of SFS, DR and ABS by building societies that prepare accounts in accordance with IAS or would you prefer the BSA to issue guidance? (See: 3.15 above)

5. Do you envisage any costs arising out of the proposed changes to the building societies legislation? (See: Partial RIA at Annex C)

⁷ S.I. 1998/504.

FINANCIAL AMOUNTS SPECIFIED IN THE BUILDING SOCIETIES ACT 1986: UPDATING CERTAIN AMOUNTS IN LINE WITH INFLATION

3.17 A number of the financial amounts specified in the BS Act 1986 were last reviewed in 1999. It is arguable that a number of these limits are now out of date, particularly those that have not been reviewed since the 1997-amending Act or earlier. It therefore requires updating to reflect current commercial realities and to make them comparable with Companies Act equivalents.

3.18 Annex B contains a summary of the limits in the BS Act 1986 identified by the BSA and the proposed changes. They include issues such as limits of director's shareholdings, restrictions on loans to directors, and restrictions on certain transactions by societies.

6. Do you agree that the financial limits and thresholds for societies should be updated in line with the proposals suggested in Annex B⁸?

7. Please specify if there are any proposals for these financial limits or thresholds you are not in agreement with and reasons why.

Cabinet Office Code of Practice on written consultations

3.19 The Cabinet Office has published a Code of Practice for Written Consultations to guide Department's activities in this area, which sets down the following criteria:

- Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy
- Be clear about what the proposals are, who may be affected, what questions are being asked, and the timescale for responses
- Ensure the consultation is clear, concise and widely accessible
- Give feedback regarding the responses received and how the consultation process influenced the policy
- Monitor the department's effectiveness at consultation, including through the use of a designated consultation coordinator
- Ensure your consultation follows better regulation best practice, including carrying out a Regulatory Impact Assessment if appropriate.

⁸ Annex B sets out the proposed changes to the statutory limits affecting the nomination of directors and certain transactions between directors and societies. It also proposes an amendment to the fee that may be required of a member seeking to requisition a special general meeting.

3.20 If you feel that this consultation does not fulfil these criteria, please contact:

Meenakhi Borooah

HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Telephone: (+44) (0) 207 270 5925

Email: meenakhi.borooah@hm-treasury.x.gsi.gov.uk

A

SIMPLIFIED FUNDING LIMIT CALCULATIONS

SIMPLIFIED ILLUSTRATION OF THE FUNDING LIMIT CALCULATION - SECTION 7 OF THE BS ACT 1986

A.1 These provisions provide that at least 50% of the liabilities in respect of shares, deposits and debt securities of a building society (including such liabilities of any subsidiaries) must be in the form of shares in the society held by individuals.

A.2 The following liabilities are disregarded in making the calculation –

- liabilities that count as own funds (i.e. capital instruments such as PIBS and subordinated debt)
- liabilities under certain securitisation transactions (in accordance with SI 2004 No 3200)

A.3 The following simplified example illustrates the potential impact were the Treasury to make an Order under section 7(7) of the BS Act 1986 providing for a certain level of deposits by individuals with offshore deposit taking subsidiaries to be disregarded in the calculation of the funding limit position.

Simplified Illustration

Current position of a building society and its subsidiaries –

Shares	60
Deposits by individuals with offshore subsidiaries	6
Wholesale deposits and debt securities	34
Total	100

A.4 The Funding Limit calculation in section 7 of the BS Act 1986 states that (X-Y) must not exceed 50% of X

A.5 In the above example

X=100 and Y=60, so the funding ratio is (X – Y) as a % of X is

$100 - 60 = 40$; as a % of 100 = 40%

A.6 If the Treasury were to agree that offshore deposits by individuals be disregarded, say up to a maximum of 5% of total shares, deposits and debt securities (that would otherwise count towards the calculation), the position in relation to the funding limit would then be –

Shares	60
Deposits by individuals with offshore subsidiaries (5 disregarded)	1
Wholesale deposits and debt securities	34
Total for funding limit purposes	95
[Actual total]	[100]

A.7 The Funding Limit calculation in terms of section 7 of the BSA Act would be as follows:

$X=95$ and $Y=60$, so the funding ratio is $(X - Y)$ as a % of X

ie $95 - 60 = 35$; as a % of $95 = 36.8\%$

A.8 Such a society could then raise an additional 5 of wholesale funds after which its funding ratio would again be at 40% as illustrated below –

Shares	60
Deposits by individuals with offshore subsidiaries (5 disregarded)	1
Wholesale deposits and debt securities	39
Total for funding limit purposes	100
[Actual total]	[105]

$100 - 60 = 40$; as a % of $100 = 40\%$

A.9 The practical impact of such a change to the basis of calculating the funding limit is therefore to enable a greater proportion of wholesale funding to be raised by societies with offshore deposit taking subsidiaries. This will enable such societies – which account for around 75% of the sector in terms of total assets – to offer cheaper mortgages to their members when wholesale funds are available at lower rates than retail funds.

B

FINANCIAL LIMITS AND THRESHOLDS

Building Societies Act 1986: Amendments suggested by the Building Societies Association

1986 Act provision (section unless otherwise stated)	Item (more detailed summaries are set out in the footnotes below)	Current limit/threshold	Suggested Increase to the following limit/threshold (To reflect the inflation increase since 1986 of approximately double)
61(2)(b)(c)	Maximum shareholding qualification [1]	£100	£200
		£100	£200
3(a)	Maximum deposit for candidate [2]	£250	£500
64 (2)(a)(b)	Acquisition by directors of non-cash assets [3]	£100,000	£200,000
		£500,000	£1,000,000
		£1,000	£2,000
65 (2)(a)(c); (3)(a); 4(a); 6(b)	Restrictions on loans etc to directors etc [4]	£5,000	£10,000
		£100,000	£200,000
		£10,000	£20,000
		£5,000	£10,000
		£20,000	£40,000
68 (7);(8)	Records of loans etc falling within section 65 [5]	£1,000	£2,000
		£5,000	£10,000
69 (12);(15)	Disclosure and record of income of related business [6]	£5,000	£10,000
Schedule 2			
Para 20(A)(7)	Deposit with requisition [7]	£25	£50

The following footnotes are summaries of the relevant 1986 Act provisions and, as such, cannot be relied upon as being comprehensive – for full details see the relevant statutory provision.

[1]-[2] These provisions relate to the nomination of directors and, respectively, lay down the nominating member's shareholding or mortgage debt (£100 in each case) and the amount of the candidate's deposit (£250).

[3] By section 64(1), a building society must not enter into certain arrangements with a director or a connected person concerning non-cash assets, unless the arrangement is first approved in general meeting, or the asset's value is less than £100,000 (or, if the society's reserves shown in the last balance sheet were less than £500,000, the asset's value is less than the higher of £1,000 or 10% of the reserves so shown).

[4] Section 65(1) restricts loans to directors. By section 65(2)(a), the restrictions do not apply to loans that (when aggregated with other loans) do not exceed £5,000, or do not exceed £100,000 if made towards purchase or improvement of an executive director's main residence on terms similar to those ordinarily made to employees. Certain restrictions do not apply to leasing or hiring of property the value of which does not exceed £10,000 or to payments of no more than £5,000 repayable within a maximum of two months. Section 65(6) restricts provision of funds to a director to meet expenditure in respect of society business, but the restriction does not apply to matters given prior approval in general meeting or to amounts that (when aggregated) do not exceed £20,000.

[5] Section 68 concerns records of loans and other arrangements falling within section 65. Certain transactions are excepted from certain provisions of section 68 if their value does not exceed £1,000 (see section 68(7)) or £5,000 (see section 68(8)).

[6] Section 69 deals with disclosure and record of related business of building society directors. Section 69(12) excepts from the requirement to keep details (in the relevant register) related business where its volume does not exceed £5,000.

[7] £25 is the maximum sum a society may require from as a deposit from a person requisitioning a special meeting.



PARTIAL RIA ON MINOR LEGISLATIVE CHANGES TO THE BUILDING SOCIETIES ACT 1986

I. PROPOSAL

C.1 This partial regulatory impact assessment (RIA) discusses the proposal to hold a public consultation on building societies legislation and the implications of making certain minor changes to the Building Societies Act 1986.

2. PURPOSE AND INTENDED EFFECT OF MEASURES

Objective C.2 Building societies in the United Kingdom (UK) are governed by the Building Societies Act 1986 (“BS Act 1986”) and are regulated by the Financial Services Authority (FSA). The BS Act 1986 was substantively revised by the Building Societies Act 1997 and by and under the Financial Services and Markets Act 2000 (FSMA 2000). The purpose of the proposed measures is to ensure that the legislation remains relevant to the needs of societies.

C.3 Two key areas have been identified as requiring attention. These are in relation to the treatment of building societies’ offshore deposits, the content of building societies summary financial statements, directors’ reports, annual business statements and certain financial amounts specified in the Building societies Act 1986.

Devolution C.4 HM Treasury (HMT) has the power to make statutory instruments (Orders, Regulations etc) which, subject to Parliamentary approval, amend or change the effect of aspects of the BS Act 1986 and legislation made under that Act. The BS Act 1986 extends to the whole of the UK so the proposed changes to that Act will have effect for the whole of the UK.

Background C.5 There are 61 building societies in the UK with total assets of over £280 billion. About 15 million adults have building society savings accounts and over 2¾ million adults are currently buying their own homes with the help of building society loans. Building societies have diversified in recent years and a number now offer, among other services, current accounts, credit cards, cash machines, travel money, unsecured loans, various types of insurance and estate agency services.

C.6 The Building Societies Association (BSA) is the trade association for **all** the UK’s building societies. Following discussions between the BSA and HMT it has been decided that there is a case for consulting with stakeholders with a view to making certain changes to aspects of the existing legislation.

C.7 The changes aim to remove anomalies and update the existing legislation, and to better align the legislation with Companies Act where appropriate. The proposed changes are consistent with the Government’s better regulation agenda, cutting burdens on building societies and facilitating accurate communication between building societies and their members.

C.8 The two main inconsistencies in the legislation that the proposals will focus on are:

- Offshore deposits;
- The requirements concerning contents of summary financial statements, directors’ reports and annual business statements; and certain financial amounts specified in the BS Act 1986.

OFFSHORE DEPOSITS

C.9 Building societies are constrained in their business operations by the statutory requirement that they:

- raise at least 50% of their funds in the form of shares held by individual members of their society; and
- have at least 75% of their lending secured on residential properties.

C.10 The funding limit is set out in section 7 of the BS Act 1986. The limit is designed to ensure that the amount and sources of funds raised by building societies is consistent with the principles that building societies' principal purpose is making loans, which are secured on residential property, and that building societies are funded substantially from their members.

C.11 Currently, deposits made by individuals with a building society's offshore subsidiaries are treated as wholesale funding¹ in measuring compliance with the funding limits. This is anomalous since such funding has more in common with retail funding². It is proposed therefore that such deposits be excluded from the funding limit calculations, although the value of the excluded deposits must not exceed 10% of the value of individuals' shares in the building society.

C.12 Taking this step would relieve pressure on societies who are close to their funding limits. It would enable societies to raise a greater amount of generally cheaper wholesale funding and would facilitate the provision of cheaper and better products for the societies' members.

SUMMARY FINANCIAL STATEMENTS, DIRECTORS' REPORTS AND ANNUAL BUSINESS STATEMENTS

C.13 All UK building societies are currently required to provide summary financial statements (which include information derived from the directors' report and the annual business statement) to their members by the BS Act 1986. As from 1 January 2005 all listed companies in the UK and the rest of the EU are required to prepare their accounts based on international accounting standards ("IAS"). Building societies that issue listed securities such as permanent interest bearing shares (PIBS) are therefore required to prepare their accounts in accordance with IAS.

C.14 All other UK building societies are allowed to continue using UK Generally Accepted Accounting Principles ("UK GAAP") but it is the UK Accounting Standards Board's intention to achieve convergence between IAS and UK GAAP. This will mean that any changes to the building societies legislation at this stage for building societies that prepare accounts in accordance with IAS will be useful in the future for all building societies. The proposed changes will make the summary financial statements of societies, which prepare accounts in accordance with IAS more transparent, harmonised and consistent with similar requirements for companies. It will also make it easier for the consumer to make comparisons between societies.

¹ The FSA describes Wholesale funding as: credit institutions (as defined in Article 1 of Directive 2000/12/EC); supranational institutions, national governments and central administrative authorities; large corporates, defined for this purpose as: companies which have called up share capital of £10mn or which meet at least one of the following criteria; balance sheet, total above £100mn, net turnover above £15mn and more than 250 employees.

² For building societies retail funding means deposits received from their members, who are individuals.

FINANCIAL AMOUNTS SPECIFIED IN THE BUILDING SOCIETIES ACT 1986

C.15 A number of thresholds of the financial limits for building societies under the BS Act 1986 were last reviewed in 1999. Updating the limits will allow HMT to adjust them to reflect current commercial realities and to make them comparable with Companies Act equivalents.

C.16 Examples of the proposed changes are limits of director's shareholdings, restrictions on loans to directors and restrictions on certain transactions by societies. A full list of the proposed changes will be included in the consultation document for stakeholders to review and comment upon.

Rationale for Government Intervention **C.17** The consultation is consistent with the government's aim to engage with industry and the public in order to modernise legislation affecting UK businesses. The consultation with stakeholders will ensure that the burdens on businesses are reduced. Although one of the changes suggested (namely the contents of the summary financial statements, directors' reports and annual business statements) could be introduced by the BSA offering guidance to its members the Government view is that it would be in the wider interest of consumers, the industry and the economy as a whole if this was introduced by legislation.

3. CONSULTATION

C.18 The consultation will seek stakeholders' views and propose changes to redefine how deposits from a building society's offshore subsidiaries should be treated in calculating a society's funding limits. It will also seek views on changing the detail of the requirements for the contents of the summary financial statements, directors' reports and annual business statements for societies that prepare accounts in accordance with International Accounting Standards. Finally, it will propose the updating of financial limits and thresholds for societies in line with inflation to make them comparable with Companies Act equivalents.

Within Government **C.19** HMT has consulted with the FSA and informed the Scottish Executive, Welsh and Northern Ireland Assemblies. The Department of Trade and Industry (DTI), Small Business Service, Companies House, and Office of Fair Trading have similarly been advised.

Public Consultation **C.20** HMT has had regular bilateral meetings with the BSA. Consultation documents will be sent to the BSA, all the 61 building societies in the UK, academicians as well as interested stakeholders in the financial services sector. The consultation document will also be posted on the HMT public website and printed copies available upon request.

4. OPTIONS

C.21 We have considered 3 options for the proposed policy. The first evaluates the implications of not doing anything. The second proposes a consultation with stakeholders in respect of offshore deposits, summary financial statements, directors' reports and annual business statements. The third involves a more detailed review of the legislation involving stakeholders and enquiring what they consider to be their main priorities for legislative action with a view to a comprehensive overhaul of the BS Act 1986.

OPTION 1: Do Nothing

C.22 We do not consider this option helpful. It would only defer the issues for consideration at a future date. Societies who are near their funding limit will find it costly to raise funds if we fail to exclude offshore deposits from the funding limit calculations. With regards to summary financial statements, directors' reports and annual business statements we consider that doing nothing will confuse the public and sector alike. Consumers will not be able to make like-with-like comparisons between societies' summary financial statements and some societies who prepare accounts in accordance with IAS may fail to disclose volatile transactions such as derivatives since that is not required within the current framework for their summary financial statements. Furthermore leaving the financial limits and thresholds for societies unchanged will mean that these will lag behind inflation and put societies at a disadvantage compared with companies.

OPTION 2: Updating the Building Societies Act and amending the secondary legislation

C.23 Option 2 would appear the most practical. These are issues suggested by the BSA as requiring urgent attention and generally representative of members' views. It would also fit in with the legislative timetable and building societies financial year ends so that societies that prepare accounts in accordance with IAS can have the benefit of the revised format of the summary financial statements as soon as practicable.

C.24 The proposals will benefit the members of societies by ensuring that they receive accurate and easily comparable information from the Summary Financial Statements. The amendment of the funding limit calculations, to take account of the retail nature of offshore deposits, will enable societies to have greater access to wholesale funding, which will assist in keeping mortgages at a competitive level. The adjustment of the financial limits maintains the specified limits at the levels provided for at the time the legislation was made, allowing for inflation, so the effect will be neutral.

OPTION 3: Review of the Entire Act

C.25 Option 3 would not be helpful and would not be an efficient use of resources. Asking stakeholders for a wish list would not in our opinion be a pragmatic solution and would not resolve current problems.

5. COSTS AND BENEFITS

Sectors and groups affected

C.26 These proposals will potentially benefit the building societies sector as a whole. It will remove burdens and enable building societies to access cheaper sources of funding leading to cheaper mortgages for the consumers.

Analysis of costs and benefits

C.27 We do not envisage that societies will incur any costs as a result of these proposals. The practical impact of the proposed change to the basis of calculating the funding limit will be to allow a greater proportion of wholesale funding to be raised by building societies with offshore deposit-taking subsidiaries. This will enable such societies, which account for around 75% of the sector in terms of total assets to offer cheaper mortgages to their members when wholesale funds are available at lower rates than retail funds.

C.28 Building societies have different funding strategies and, at any time, individual societies will wish to raise different proportions of funds from the wholesale markets. Section 7 of the BS Act 1986 will continue to restrict the amount of wholesale funds raised by building societies, and the volume of deposits by individuals with offshore deposit-taking subsidiaries. However, based on recent interest rate differentials, individual societies may be able to raise funds from the wholesale markets that are 0.1%, 0.2% and up to 0.25% cheaper than raising funds from individuals.

C.29 Because of their different funding strategies however it is still conceivable for some societies to be in situations where new wholesale funding may in fact be more expensive than both new member funding and offshore deposits. Bearing this in mind and the unlikelihood of all the societies that might benefit moving to increase their wholesale funding levels quickly, it would not be sensible to relate potential interest rate differentials explicitly to the total amount of current offshore subsidiary funds - of approx £6 billion - and describe the resulting amounts below as incontrovertible benefits.

C.30 Based on conservative estimates however the annual interest saved at a 0.1% lower interest rate on £6 billion would be £6 million and the annual interest saved at a 0.2% lower interest rate on £6 billion would be £12 million etc. The consultation will seek stakeholders' views on these anticipated benefits and any costs. This will give a more accurate picture since it would be based on information supplied by the various societies.

6. SMALL FIRMS IMPACT TEST

C.31 We do not expect the proposed changes to have a major impact on small firms.

7. COMPETITION ASSESSMENT

C.32 We have performed a simple competition assessment of the building societies sector. There are at present 61 societies in the UK. The largest ten societies, ranked in order of group assets are Nationwide, Britannia, Portman, Yorkshire, Coventry, Chelsea, Skipton, West Bromwich, Leeds and Derbyshire. Of these 10 societies 6 of these have offshore subsidiaries. Excluding offshore deposits from the funding limit calculations is not expected to alter the sector dynamics, as it will offer a level playing field for all the others. This proposal should therefore not have any competition implications.

8. ENFORCEMENT, SANCTIONS AND MONITORING

C.33 The FSA in its role as Regulator has extensive powers of enforcement, sanctions, monitoring and control to ensure that building societies comply with the principal purpose requirement, lending limit or the funding limit and to act where they fail.

C.34 These powers include a direction by the FSA for the society to submit for approval a restructuring plan to bring it within the relevant statutory requirements, a prohibition order where a society has failed to carry out a restructuring plan, a direction to the society to consider transferring their engagements to another building society or transferring its business to an existing company and to present a petition for the winding up of the society.

9. COMPENSATORY SIMPLIFICATION MEASURE

C.35 As part of the drive to create a better balance between the creation of new measures and reducing existing requirements on businesses, Cabinet Office guidance requires departments to look for opportunities to simplify or remove existing requirements when introducing new legislation. The proposed changes have a cumulative effect in reducing the burdens on building societies and will help to make them more competitive.

10. CONFIDENTIALITY DISCLOSURES

C.36 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily) the Freedom of Information Act 2000 (FOIA), the Data Protection Act (DPA) and the Environmental Information Regulations 2004). If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality will be maintained in all circumstances.

C.37 An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department. The Department will process your personal data in accordance with the DPA, and in the majority of circumstances, this will mean that your personal data will not be disclosed to third parties.

2007 No.xxxx

BUILDING SOCIETIES

The Building Societies Act 1986 (Modification of the Funding Limit Calculation and Substitution of Specified Amounts) Order 2007

<i>Made</i> - - - -	***
<i>Laid before Parliament</i>	***
<i>Coming into force</i> - 2007	- 6th April

The Treasury make the following Order in exercise of the powers conferred by sections 7(7)(a), 61(4), 64(3), 65(8), 68(9), 69(12) of, and paragraph 20A(13) of Schedule 2 to, the Building Societies Act 1986^(a):

Citation and commencement

1. This Order may be cited as the Building Societies Act 1986 (Modification of the Funding Limit Calculation and Substitution of Specified Amounts) Order 2007 and comes into force on 6th April 2007.

Substitution of specified amounts

2.—(1) The Building Societies Act 1986 is amended as follows.

(2) In section 61(b) (directors: supplementary provisions as to elections)—

(a) in subsection (2), for “£100” substitute “£200” in both places where it occurs;

(b) in subsection (3)(a), for “£250” substitute “£500”.

(3) In section 64(2)(c) (substantial property transactions involving directors and connected persons)—

(a) for “£100,000” substitute “£200,000”;

^a 1986 (c.53). Section 7(7)(a) was substituted by section 8 of the Building Societies Act 1997 (c.32) and amended by S.I. 2001/2617. Section 61(4) was substituted by section 28 of the Building Societies Act 1997 and amended by S.I. 2001/2617. Sections 64(3), 65(8), 68(9) and 69(12) were amended by S.I. 2001/2617. Paragraph 20A(13) of Schedule 2 was inserted by section 25 of the Building Societies Act 1997 and amended by S.I. 2001/2617.

^b Section 61(2) was substituted by section 28(1) of the Building Societies Act 1997.

^c Section 64(2)(a) was amended by S.I. 1995/1872.

- (b) for “£500,000” substitute “£1,000,000”;
- (c) for “£1,000” substitute “£2,000”.
- (4) In section 65^(d) (restrictions on loans, etc. to directors and persons connected with them)—
 - (a) in subsection (2)(a), for “£5,000” substitute “£10,000”;
 - (b) in subsection (2)(c), for “£100,000” substitute “£200,000”;
 - (c) in subsection (3)(a), for “£10,000” substitute “£20,000”;
 - (d) in subsection (4)(a), for “£5,000” substitute “£10,000”;
 - (e) in subsection (6)(b), for “£20,000” substitute “£40,000”.
- (5) In section 68^(e) (records of loans, etc. for directors falling within section 65)—
 - (a) in subsection (7), for “£1,000” substitute “£2,000”;
 - (b) in subsection (8), for “£5,000” substitute “£10,000”.
- (6) In section 69(12)^(f) (disclosure and records of income of related businesses), for “£5,000” substitute “£10,000”.
- (7) In paragraph 20A(7)^(g) of Schedule 2 (establishment, incorporation and constitution of building societies), for “£25” substitute “£50”.

Modification of the funding limit calculation

3.—(1) Section 7(3) of the Building Societies Act 1986 (the funding limit) is modified in its application to the liabilities of subsidiary undertakings of a building society as follows.

(2) Subject to paragraph (3), the principal value of, and interest accrued on, sums deposited with an EEA subsidiary undertaking of a building society by individuals acting otherwise than as bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate shall be disregarded for the purposes of section 7(2).

(3) In respect of any society, the amounts disregarded pursuant to paragraph (2) must not exceed in total ten per cent. of the value at any time of X calculated as set out in section 7(2) before any modification is made pursuant to this article.

(4) Where an individual declares that he is depositing a sum with an EEA subsidiary undertaking of a building society otherwise than as a bare trustee (or, in Scotland, a simple trustee) for a body corporate or for persons who include a body corporate, he shall, unless the contrary is shown, be conclusively presumed for the purposes of section 7 to have deposited the sum otherwise than as such a trustee.

(5) In this article, “EEA subsidiary undertaking” means a subsidiary undertaking that is incorporated or otherwise established in a State which is a contracting party to the agreement on the European Economic Area signed at Oporto on 2nd May 1992^(h) as adjusted by the Protocol signed at Brussels on 17th March 1993⁽ⁱ⁾, the Channel Islands, the Isle of Man or Gibraltar.

March 2007 Two of the Lords Commissioners of Her Majesty’s Treasury

^d Section 65 was amended by S.I. 1995/1872. There are other amending instruments but none is relevant.

^e The only relevant amending instrument is S.I. 2001/2617.

^f Section 69(12) was amended by S.I. 2001/2617.

^g Paragraph 20A was inserted by section 25 of the Building Societies Act 1997; the only relevant amending instrument is S.I. 2001/2617.

^h Cm. 2073.

ⁱ Cm. 2183.

EXPLANATORY NOTE

(This note is not part of the Order)

This Order amends and modifies the application of provisions of the Building Societies Act 1986.

Regulation 2 amends various financial amounts that are specified in the Building Societies Act 1986. The changes affect the rules concerning the election of a building society's directors, arrangements between a building society and the society's director or a connected person, loans by a building society to a director of the society, disclosure and records of certain business entered into by a building society's director and the deposit required for requisitioning a special meeting of a building society.

Under section 7 of the Building Societies Act 1986 (c.53) at least 50 per cent. of a building society's liabilities must be shares owned by individuals. Regulation 3 requires deposits made by individuals to a building society's overseas subsidiaries to be disregarded for the purpose of calculating that percentage. The maximum amount of such deposits which may be excluded is ten per cent of what would have been the value of the building society's liabilities but for the exclusion.

A full regulatory impact assessment of the effect that this instrument will have on the costs of business may be obtained from the General Insurance, Mutuals and Inclusion Team, HM Treasury, 1 Horse Guards Road, London SW1A 2HQ or from HM Treasury's website (www.hm-treasury.gov.uk). Copies of the regulatory impact assessment have been placed in the libraries of both Houses of Parliament.

2007 No. xxxx

BUILDING SOCIETIES

The Building Societies (Accounts and Related Provisions) (Amendment) Regulations 2007

<i>Made</i>	- - - -	***
<i>Laid before Parliament</i>		***
<i>Coming into force</i>	- -	6th April 2007

The Treasury make the following Regulations in exercise of the powers conferred by sections 74(3), 75(1)(b) and 76(3) of the Building Societies Act 1986^(a):

Citation and commencement

1. These Regulations may be cited as the Building Societies (Accounts and Related Provisions) (Amendment) Regulations 2007 and come into force on 6th April 2007.

Amendments to the Building Societies (Accounts and Related Provisions) Regulations 1998

2. The Building Societies (Accounts and Related Provisions) Regulations 1998^(b) are amended as follows.

3. In regulation 10—

- (a) in paragraph (1), for “in Part 1” substitute “, for a society whose annual accounts are Building Societies Act accounts, in Part 1 and, for a society whose annual accounts are prepared in accordance with international accounting standards, in Part 1A”;
- (b) in paragraph (2)(b), for “Part 1” substitute “Parts 1 and 1A”.

4. In Schedule 8—

- (a) in paragraph 7(1), after “report” insert “prepared by a society whose annual accounts are Building Societies Act accounts”;
- (b) after paragraph 7(1), insert—

^a 1986 c.53. Sections 74(3) and 76(3) were amended by S.I. 2001/2617. Section 75(1)(b) was amended by section 43 of the Building Societies Act 1997 (c.32) and S.I. 2001/2617.

^b S.I. 1998/504 to which there are amendments not relevant to these Regulations.

“(1A) The directors’ report prepared by a society whose annual accounts are prepared in accordance with international accounting standards shall disclose, in accordance with sub-paragraph (2)—

- (a) free capital as a percentage of the total liabilities contained in the annual accounts; and
- (b) gross capital as a percentage of the total liabilities contained in the annual accounts.”;
- (c) in paragraph 7(2), for “sub-paragraph (1)” substitute “sub-paragraphs (1) and (1A)”;
- (d) in paragraph 8, after “report” insert “prepared by a society whose annual accounts are Building Societies Act accounts”;
- (e) after paragraph 8, insert—

“8A The directors’ report prepared by a society whose annual accounts are prepared in accordance with international accounting standards shall disclose in respect of mortgage accounts of the society and of any subsidiary undertaking twelve or more months in arrears at the balance sheet date—

- (a) the number of such accounts;
- (b) the total amount outstanding on such accounts; and
- (c) the total amount of arrears on such accounts.”.

5. In Schedule 9—

- (a) in paragraph 1(3), after “sub-paragraph (1)(a)” insert “by a society whose annual accounts are Building Societies Act accounts”;
- (b) after paragraph 1(3), insert—

“(4) For the purpose of calculating the percentage required to be stated by sub-paragraph (1)(a) by a society whose annual accounts are prepared in accordance with international accounting standards, the liquid assets and fixed assets of the society and any subsidiary undertakings referred to in respectively paragraphs (a) and (b) of section 6(2) of the Act are those included in the annual accounts.”;

- (c) in paragraph 2(1), after “statement of a society” insert “whose annual accounts are Building Societies Act accounts”;
- (d) after paragraph 2(1), insert—

“(1A) Subject to the following provisions of this paragraph, the annual business statement of a society whose annual accounts are prepared in accordance with international accounting standards shall state the following particulars in respect of the society both in relation to the financial year with which it deals and in relation to the previous financial year—

- (a) the gross capital, free capital and liquid assets as at the date of the annual accounts;
- (b) the profit or loss after taxation as a percentage of the mean total assets; and
- (c) management expenses as a percentage of the mean total assets.”
- (e) in paragraphs 2(2), (3) and (4), for “sub-paragraph (1)” in each instance where it occurs substitute “sub-paragraph (1) or (1A)”;
- (f) in paragraph 2(5), for “in this paragraph” substitute “for the purposes of sub-paragraph (1)”.

6. In Schedule 10—

- (a) before Part II, insert the text set out in the Schedule to these Regulations;
- (b) in Part II—
 - (i) after “Part I” in each instance that it occurs, except in paragraphs 5 and 7, insert “and Part IA”;
 - (ii) after paragraph 5, insert—

“5A Subject to paragraph 3, the items in Section C of Part IA shall be derived from the society’s annual accounts.”;

- (iii) after paragraph 7, insert—

“7A Subject to paragraph 3, the items in section D of Part IA shall be derived from the society’s annual accounts.”.

[March 2007] Two of the Lords Commissioners of Her Majesty's Treasury

SCHEDULE Regulation 6(a)
SUMMARY FINANCIAL STATEMENT

“PART IA

Format of summary financial statement

SECTION A

Prescribed form of statement for the purposes of section 76(4) of the Act

This financial statement is a summary of information in the audited annual accounts, the directors' report and annual business statement, all of which will be available to members and depositors free of charge on demand at every office of(Note 1) from/after (Note 2).....(Note 3).

Note 1: Insert name of society.

Note 2: Delete as appropriate.

Note 3: Insert appropriate date.

SECTION B

Summary Directors' Report

SECTION C

Format of Summary Statement

	This year	Last Year
	£	£
Results for the year		
1. Net interest receivable		
2. Other income and charges		
3. Fair value gains and losses		
4. Administrative expenses		
5. Impairment losses		
6. Profit/Loss (Note 1) for the year before taxation		
7. Taxation		
8. Minority interests (Note 2)		
9. Profit/Loss (Note 1) for the year		
Financial position at end of year		
Assets		

10. Liquid assets
11. Mortgages
12. Other loans
13. Derivative financial instruments
14. Fixed and other assets
15. Total assets

Liabilities

16. Shares
17. Borrowing
18. Other liabilities
19. Derivative financial instruments
20. Subordinated liabilities
21. Subscribed capital
22. Reserves
23. Other capital (Note 3)
24. Total liabilities

Note 1: Delete as appropriate.

Note 2: Group accounts societies only.

Note 3: The heading may be replaced by “Revaluation reserve” where this is the only category of “Other capital” in the balance sheet in the annual accounts.

SECTION D

Format of summary of key financial ratios

	This year	Last year
	%	%
1. Gross capital as a percentage of shares and borrowings		
2. Liquid assets as a percentage of shares and borrowings		
3. Profit/Loss (Note 1) for the year as a percentage of mean total assets		
4. Management expenses as a percentage of mean total assets		

Note 1: Delete as appropriate. ”

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Building Societies (Accounts and Related Provisions) Regulations 1998 (S.I. 1998/504) (“the principal Regulations”) to specify the format and contents of the summary financial statements for building societies which prepare accounts in accordance with international accounting standards.

Regulation 4 amends the principal Regulations in relation to the contents of the directors’ report for building societies which prepare accounts in accordance with international accounting standards.

Regulation 5 amends the principal Regulations in relation to the contents of the annual business statement for building societies which prepare accounts in accordance with international accounting standards.

A full regulatory impact assessment of the effect that this instrument will have on the costs of business may be obtained from the General Insurance, Mutuels and Inclusion Team, HM Treasury, 1 Horse Guards Road, London SW1A 2HQ or from HM Treasury's website (www.hm-treasury.gov.uk). Copies of the regulatory impact assessment have been placed in the libraries of both Houses of Parliament.

ISBN 1-84532-209-6



9 781845 322090 >