

22nd April 2008

Dear Sirs

Financial Stability and Depositor Protection - Strengthening the Framework

I am setting out the Society's response to the Consultation Paper. I do not think it appropriate to respond to each question in detail, but will instead make comments under the six broad headings in the executive summary as follows:

1. The need for change

The Paper argues for a significant change to the existing framework, but the turbulence in international markets, leading to the events at Northern Rock, may not necessarily mean that there is a fundamental weakness in the system of regulation.

2. Strengthening the stability and resilience of the system

We recognise that one of the contributory factors to the instability has been uncertainties about losses and their impact on balance sheets, and therefore agree that the FSA should support work internationally to improve stress testing, liquidity regulation and consistent valuation disclosure regarding asset backed securities and credit rating agencies.

3. Reducing the likelihood of banks failing

We support the proposals to ensure that the liquidity available to a building society is similar to that which is available from a bank. We also broadly support the other measures proposed regarding the provision of more detailed information to the FSA, a limited delay in disclosure of emergency liquidity assistance, and the arrangements regarding the Bank of England Immunity and Security.

4. Reducing the impact of failing banks

We do not believe it is necessary to examine the introduction of a special resolution regime, unless existing insolvency legislation and corporate rescue regimes cannot be amended to achieve the objectives that are sought.

5. Providing effective compensation arrangements

Whilst we supported the recent increase in the maximum compensation payable under the FSCS, we do not believe that increasing the amount on its own will contribute to increased consumer confidence. It is open to debate whether the events at Northern Rock would have been affected by a larger compensation limit. We would, however, support measures to speed up payments of compensation in the event of a failure.

We oppose pre-funding because of the difficulty of estimating an appropriate level, and the cost of having to provide funds. We believe that reviewing the level of compensation, and the method of funding it should be undertaken together, not separately as seems to be the case.

6. Strengthening the Bank of England and improving coordination between authorities

The changes to the Bank of England arrangements outlined in chapters 6 and 7 have our support.

I trust these comments will be useful in your deliberations.

Yours faithfully