

BSA Response to CP13/24

Restatement of CRR

January 2025

Summary

The Building Societies Association (BSA) represents all 42 UK building societies, including both mutual-owned banks, as well as 7 credit unions. Building societies have total assets of almost £525 billion and together with their subsidiaries, hold residential mortgages of over £395 billion, 24% of the total outstanding in the UK. They also hold £399 billion of retail deposits, accounting for 19% of all such deposits in the UK. Building societies account for 40% of all cash ISA balances. They employ around 52,300 full and part-time staff and operate through approximately 1,300 branches, a 30% share of branches across the UK.

The BSA welcomes the opportunity to comment on the proposals in CP13/24. As a general principle, the BSA supports the transfer of rules that were previously part of the Capital Requirements Regulation (CRR) into the PRA Rulebook. We believe it is appropriate and pragmatic for the detailed rules to be under the control of the PRA. This allows for the timely updating of the rules to keep pace with market developments, with the safeguards of open consultation and cost-benefit-analysis (CBA) for any changes. The BSA continues to work with the PRA by responding to consultations and participating in other industry outreach. We encourage the PRA to look for opportunities to make refinements at the same time as bringing the rules into the PRA Rulebook, both in terms of substance and improving proportionality where appropriate, but also in terms of reducing ambiguity and improving the readability of the requirements.

As such, we welcome the proposals in CP13/24 and note that in many cases the transfer of rules to the PRA Rulebook do not make policy changes. We trust that firms can rely on the PRA's statement in this regard. As such, if a firm complies with the existing rules then they can assume that they will comply with the new rules where the PRA has stated there is no change in the substance. If in future, there has been any error in the transposition then any firm acting in good faith should not be penalised for any such non-compliance with transposition errors.

We also welcome that the PRA has highlighted the areas where changes of substance are being proposed. The BSA is commenting on the securitisation proposals in particular, but also raising an issue that has been ongoing with regard to private mortgage guarantee schemes, such as those designed to help first time buyers to access higher LTV loans. These schemes do not present the same risks as a traditional securitisation, and the BSA is therefore of the view that it is not proportionate for the PRA to treat these schemes as such. Securitisation disclosure requirements in particular are designed to ensure that investors have sufficient information to enable them to assess the risks. No such investors exist in this instance and therefore requiring such disclosures creates administrative burden to firms without providing any benefit.

Detailed response

The BSA is commenting only on the proposals that are most relevant to its members. Larger building societies are active in the securitisation of mortgage loans. A number of societies are also involved in private mortgage guarantee schemes albeit the lending volumes have been low because of the regulatory uncertainty and inappropriate approach taken to treating such schemes as a securitisation. This is at odds with the PRA's secondary competitiveness and growth objective as well as the Government's aim to help first time buyers to access the mortgage market.

Proposal 1

The BSA is not commenting on this proposal, other than to note that we welcome that the PRA can be bold and depart from Basel standards in situations where it is appropriate to do so, such as where other jurisdictions are doing the same and this creates issues of competitiveness, and to narrow the gap between different approaches in the framework.

Proposal 2

Mortgage guarantee schemes, including those provided by the government and private sector schemes are an important vehicle to enable more people to have access to home-ownership, including first-time buyers. These schemes are very different in their nature to securitisation, in terms of the participants in the scheme, the risks involved and ultimately the risks to the PRA's safety and soundness objective. As such, the BSA is strongly of the view that such schemes should never have been defined as a securitisation as there are no external investors. While structures may vary, one recent scheme involved the builders of new properties purchasing MIG insurance on behalf of the borrower and to protect the lender for higher LTV loans. This cost is treated by the builder as a sunk marketing cost. The MIG provider is providing a product that is more akin to insurance than any other product. The PRA's decision to treat such a scheme as securitisation is illogical and serves no purpose in furthering the PRA's primary objective of safety and soundness, while being directly against the secondary competitiveness and growth objective. The BSA is responding to the proposals in CP13/24 in this context.

Societies that have participated in such private mortgage guarantee schemes have not generally taken any capital benefit for the existence of MIG. As such, they are already applying a risk weight to the loan in line with the credit risk approach for mortgages as if the MIG did not exist. The MIG is purchased as an additional risk mitigant that can be drawn upon in times of need and is not purchased with the intent of capital relief. Furthermore, MIG is a requirement for certain societies under the PRA's SS20/15 The Building Societies Sourcebook.

The BSA is therefore supportive of the capital treatment proposed which is aligned to the current treatment in most aspects with the exception of the treatment of the portion covered by MIG. At the moment, this is risk weighted as if the MIG doesn't exist, whereas the proposals would allow firms to substitute this with the counterparty risk weighting of the MIG provider. As such, while the BSA continues to disagree with these loans being treated as a securitisation with all the commensurate requirements entailed, we do support the proposals on the risk weighting proposed. We support this on the grounds that the proposal reflects the economic substance of the loan, and also, to the extent that other lenders are currently risk weighting the exposures at 15% under the SEC-SA, it removes this market distortion and levels the playing field.

We note in the cost-benefit-analysis that the PRA does not have data for loans under private schemes similar to the MGS. BSA members involved in such schemes have indicated that the

volumes are de-minimis, which is in large part, a result of the regulatory uncertainty which has created a barrier to the success of this type of scheme.

Proposal 3

This BSA is not commenting on the proposed supervisory expectations relating to the use of unfunded credit protection in synthetic SRT securitisations. This is because BSA members are not active in this activity.

Proposals 4-7 and 9-16

The BSA notes that proposals 4-16 on securitisation in Chapter 3 of CP13/244 are described by the PRA as 'relatively minor.' As such, the BSA is not commenting on these proposals but is commenting on proposal 8 as set out below.

Proposal 8

Proposal 8 relates to the treatment of holdings by Small Domestic Deposit-takers (SDDTs) in securitisations. This proposal is already covered in CP7/24 on the Strong and Simple framework for SDDTs. The BSA has responded¹ that it does not support the risk weight of 1250% for the exposures below the threshold. This is because adding the exposure in full to risk weights has the aggregate impact of a firm needing to hold more capital against the exposure than the value of the exposure itself. This is because of the way the pillar 1 risk weights multiply up through the capital stack through pillar 2a and buffers. A firm can never lose more money than the amount of the exposure and therefore a 1250% risk weight is inappropriate. The BSA recommends that a simple deduction is better than a 1250% risk weight.

¹ See [BSA Response to CP7/24](#)

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The Building Societies Association (BSA) is the voice of the UK's building societies and also represents a number of credit unions.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the Government and Parliament, the Bank of England, the media and other opinion formers, and the general public.

Our building society members have total assets of almost £525 billion, and account for 24% of the UK mortgage market and 19% of the UK cash savings market.