

Our response to the EBA consultation paper on draft regulatory technical standards on the specification of the calculation of credit risk adjustments (EBA/ CP/ 2012/10)

Introduction

The Building Societies Association (BSA) represents mutual lenders and deposit takers in the UK including all 47 UK building societies. Mutual lenders and deposit takers have total assets of over £375 billion and, together with their subsidiaries, hold residential mortgages of £245 billion, 20% of the total outstanding in the UK. They hold more than £250 billion of retail deposits, accounting for 22% of all such deposits in the UK. Mutual deposit takers account for 31% of cash ISA balances. They employ approximately 50,000 full and part-time staff and operate through approximately 2,000 branches.

General observations

The BSA is content with the rationale behind these draft RTS explained on pages 5 to 7 of the CP. We particularly support the points made on page 7 affirming (i) the eligibility of GCRAs for inclusion in Tier 2 own funds, and (ii) that the existence of an SCRA for a group of exposures does not drive a conclusion that any default event has occurred for individual obligors.

We also agree that the RTS should be drafted in a way that can be applied irrespective of the accounting framework, as a few of our members use IFRS but the majority use national GAAP.

Specific comments

Q1 - While we are broadly content with the key specifications contained in paragraphs 4 and 5 of Article 2, we consider that paragraph 2 indent (b) would be clearer if it referred to *potential* credit risk losses.

Q3 – We are content with the policy choice regarding the allocation of SCRAs for group exposures.

Q4 – We think the effectiveness of Article 6 could be improved by adding the following wording, further supporting the point made in Recital 8: “Consequently, the existence of an SCRA for a group of exposures is not sufficient reason to conclude that default events have occurred for individual obligors within that group.”

Questions 6 – 9 – We have no concrete information from our members about the cost benefit aspects.