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PRIME MINISTER

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**BUILDING SOCIETIES COMMISSION**

We are meeting on Monday to discuss the future supervision of banks. As background to that meeting, and because it is an important issue in its own right, you will want to be aware of the arrangements that I am now proposing for the supervision of building societies.

The Green Paper we published last year made it clear that the wider powers to be given to building societies would not be allowed to put at risk their reputation as a safe home for investors' money. This implies increased recognition by the directors of societies of their responsibility to protect the interests of investors. It also makes it necessary to strengthen prudential supervision.

I am satisfied that the right way to achieve this is to build on the existing supervisory structure. Responsibility for the framework of supervision must continue to rest with Ministers. But there is considerable advantage in separating responsibility for day-to-day supervision, and decisions on individual cases. I therefore rule out any closer direct Ministerial involvement. Nor is self-regulation appropriate. The supervisor of deposit-taking institutions must involve himself not just with standards of behaviour, but also with future commercial plans and viability to an extent which is impossible for a self-regulatory body. No other country has placed this type of supervision with a self-regulatory organisation.





I am, however, seeking to remove constraints on direct competition between banks and building societies. At some point, it will almost certainly make sense to bring their supervision under one authority. But I am satisfied that for an initial period after the new legislation the building societies will have to be supervised separately from banks. They will still be confined to generally less risky assets, and will require a less detailed style of supervision, with different capital adequacy and liquidity criteria.

The timescale for bringing supervision of banks and building societies together must depend in part on the future institutional arrangements for banking supervision, which we are due to discuss on Monday. It will also hinge on how rapidly the building societies themselves change, once the new legislation comes into effect, and on wider developments in financial markets.

The solution we adopt now must therefore make sense to building societies in a critical period of change, and facilitate the subsequent evolution of the supervisory structure for deposit-taking. It makes no sense from either point of view to establish a new quango.

#### The new Commission

I have therefore decided to leave supervision with what is now the Registry of Friendly Societies, but to make one important structural change.

The wider powers and responsibilities given to the supervisor in the new legislation would be more suitably vested in a body rather than in a single person. Both Parliament and the societies will be reassured that the wider powers will be consistently and fairly used if they are exercised by a group





of people with appropriate experience, rather than concentrated on one individual. The Chief Registrar fully supports the proposal that the powers should be vested in a Commission, of which he would be chairman or First Commissioner, rather than in him alone.

The Commission would have, say, three full-time members who would be civil servants, and three or four part-time ones who would not. I would select the part-time members with a view to widening the expertise and experience available: they might include a recently retired building society chief executive, an accountant, a lawyer and possibly a senior banking supervisor. Collectively, well-chosen part-time members would greatly strengthen the supervisory authority.

The new Commission would take on only the supervision of the building societies. For it to assume all the functions of the Registry would both hinder any future reorganisation, and cause needless offence to friendly societies by ending the historic title of Registry of Friendly Societies. The department (at present 125 staff) is too small to split into two. The First Commissioner would therefore also hold the title of Chief Registrar, with statutory responsibility for registration functions, and for the supervision of friendly societies. He would remain Head of Department and Accounting Officer. He, and not the Commission, would be responsible for the deployment of the staff resources of the Department.

The Commission would report annually to Parliament. The Building Societies Bill will provide for appeal against the exercise of the Commission's severer statutory powers. All its individual decisions will also, of course, be subject to judicial review. The Commission will report confidentially to Treasury Ministers, in the same way as the Registrar now does.





### Financing

I announced in the Green Paper that power would be taken to recover the costs of supervision from societies. The Commission will therefore be self-financing, although the combined Department will still have a Vote to which the normal rules of gross accounting will apply. The Chief Registrar has satisfied me that the Commission will be the most cost-effective way of securing supervision of the required standard, and in particular of securing the essential experience and expertise. Moreover, it could produce a public expenditure saving of some £800,000 in 1986-87, because it will give us reasonable cause to bring in the new charging system some six months earlier than would otherwise have been possible.

*An amount that matters to the Treasury's own housekeeping*

### Staffing

It is increasingly difficult to attract suitably qualified staff to the Registry. This is at least in part due to the Victorian image of the Registry of Friendly Societies, epitomised by its now wholly inappropriate name. I share the Chief Registrar's view that the change proposed in this minute should enhance the status and attractiveness of the Registry as a place to work. This will be important as we seek to recruit supervisors who will take on the more demanding tasks implied by the new legislation.

### Conclusion

I should be grateful to know that you are content with the reorganisation of the Registry of Friendly Societies, for which I propose to provide in the Building Societies Bill. This will enable it to perform more effectively the task of supervision of building societies under the new legislation.





It would remain a non-Ministerial department, but the task of supervising building societies would be vested in a Building Societies Commission, rather than in the Chief Registrar of Friendly Societies personally. In view of the tight timetable for the Bill, I have given officials contingent authority to draft instructions for Counsel.

If you are content with this proposal, I should like Ian Stewart to announce it in a speech on Friday 1 November, in which he will also be announcing other decisions which we have taken on the building societies legislation. It will be important for the Chief Registrar to give his staff prior warning of the proposal.

A handwritten signature in dark ink, appearing to be 'N.L.' with a flourish.

N.L.

25 October 1985



CONDOR

