

1987 No. 1499

**BUILDING SOCIETIES**

**The Building Societies (Liquid Asset) Regulations 1987**

<i>Made</i> - - - - -	<i>20th August 1987</i>
<i>Laid before Parliament</i>	<i>27th August 1987</i>
<i>Coming into force</i>	<i>1st October 1987</i>

The Building Societies Commission, with the consent of the Treasury, in exercise of the powers conferred upon it by section 21(7) of the Building Societies Act 1986(a), and of all other powers enabling it in that behalf, hereby makes the following Regulations:

**Citation and commencement**

1. These Regulations may be cited as the Building Societies (Liquid Asset) Regulations 1987 and shall come into force on 1st October 1987.

**Interpretation**

2. In these Regulations—

“the Act” means the Building Societies Act 1986;

“liquid asset” means an asset of a character which societies may hold under section 21 (liquid assets) of the Act for the purpose of meeting their liabilities as they arise;

“predecessor” means, in relation to an existing society—

(a) a society which has transferred its engagements to that existing society, or

(b) a society which—

(i) has amalgamated with one or more societies under section 93 of the Act (amalgamations) so as to establish that existing society as their successor, or

(ii) has united with one or more societies under section 18 (unions) of the Building Societies Act 1962(b) or of the Building Societies Act (Northern Ireland) 1967(c) so as to become that existing society; and

“society” means a building society.

**Prescription of liquid assets**

3.—(1) Each description of assets which—

(a) comes within a provision of Part I of the Schedule hereto, and

(b) where a provision of Part II of the Schedule hereto applies to it, conforms with the requirements of that provision,

is prescribed as a description of liquid assets.

(2) Part III of the Schedule hereto has effect for determining the circumstances in which, and the conditions subject to which, the descriptions of assets referred to therein may be held by societies.

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(a) 1986 c.53.

(b) 1962 c.37, repealed by the Building Societies Act 1986.

(c) 1967 c.31 (N.I.), repealed by the Building Societies Act 1986.

(3) The definitions in Part IV of the Schedule hereto have effect in respect of the interpretation of that Schedule.

**Transitional provision**

4.—(1) This regulation applies to assets of a society which are not liquid assets under these Regulations but—

(a) are assets which—

(i) were previously liquid assets and have ceased to be so, and

(ii) have been held by the society continuously since a date before the date on which they ceased to be liquid assets, or

(b) are assets which—

(i) were treated, by virtue of article 7 (liquid assets) of the Building Societies Act 1986 (Rules and Miscellaneous Transitional Provisions) Order 1986(a), as if they were prescribed in liquid asset Regulations, and

(ii) have been held by the society continuously since a date before the date on which these Regulations came into force.

(2) A society which so holds assets to which this regulation applies shall not lose its power to continue to hold those assets.

(3) In this regulation a society is treated as including any predecessor of the society.

In witness whereof the common seal of the Building Societies Commission is hereunto fixed, and is authenticated by me, a person authorised under paragraph 14 of Schedule 1 to the Building Societies Act 1986, on 13th August 1987.



*D. B. Severn*  
Secretary to the Commission

We consent to this Order.

*Peter Lloyd*  
*David Lightbown*

20th August 1987

Two of the Lords Commissioners of Her Majesty's Treasury

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(a) S.I. 1986/2168.

## SCHEDULE

Regulation 3

### PART I LIQUID ASSETS

1. Cash.
2. Deposits with the Bank of England.
3. Certificates of Tax Deposit issued by the Treasury.
4. Treasury Bills.
5. Marketable securities issued in the United Kingdom by Her Majesty's Government.
6. National Savings Deposit Bonds.
7. National Savings Income Bonds.
8. Deposits with the National Savings Bank.
9. Loan stock of the Bank of Ireland.
10. Loans to the Department of Finance and Personnel (Northern Ireland).
11. Marketable securities issued in the United Kingdom in respect of which the obligations of the issuer as to payment are guaranteed by Her Majesty's Government.
12. Marketable securities issued in the United Kingdom by any of the following:
  - (a) the African Development Bank;
  - (b) the Asian Development Bank;
  - (c) the Caribbean Development Bank;
  - (d) the European Atomic Energy Community;
  - (e) the European Coal and Steel Community;
  - (f) the European Economic Community;
  - (g) the European Investment Bank;
  - (h) the Inter-American Development Bank;
  - (i) the International Bank for Reconstruction and Development;
  - (j) the International Finance Corporation;
  - (k) the International Monetary Fund.
13. Deposits with any Banking Act authorised institution.
14. Certificates of deposit issued by any Banking Act authorised institution.
15. Deposits with any gilt-edged market maker.
16. Deposits with any Stock Exchange money broker.
17. Stock lending rights against any Stock Exchange money broker.
18. Certificates of deposit issued by any society.
19. Bills accepted by any eligible bank.
20. Bills issued by any relevant authority.
21. Marketable securities issued in the United Kingdom by any relevant authority.
22. Marketable securities issued in the United Kingdom by any nationalised industry.
23. Loans to any relevant authority.

24. Floating rate notes issued by any Banking Act authorised institution.
25. Floating rate notes issued by any society.

**PART II**  
**PROVISIONS APPLICABLE TO CERTAIN DESCRIPTIONS OF ASSETS**

1. An asset which comes within any paragraph other than paragraph 1 of Part I above is a liquid asset only where any obligation of the person whose liability that asset represents to make any payment in respect thereof is expressed in sterling.
2. Loan stock which comes within paragraph 9 of Part I above is a liquid asset only where it comprises a marketable security.
3. A loan which comes within paragraph 10 of Part I above is a liquid asset only where it is secured by a charge on the Consolidated Fund of Northern Ireland.
4. A deposit or loan which comes within paragraph 10, 13 or 23 of Part I above is a liquid asset only during the period of five years ending with the relevant date (that is to say the date on which it falls to be repaid in full or, if earlier, the date on which the depositor or lender can require it to be repaid in full without the performance of any obligation on his part other than the service of ordinary repayment notice or the acknowledgement of receipt of the sum so paid).
5. A deposit which comes within paragraph 15 or 16 of Part I above is a liquid asset only where it is secured by the transfer to the society of a liquid asset which comes within paragraph 5, 11 or 12 thereof.
6. A stock lending right against a Stock Exchange money broker which comes within paragraph 17 of Part I above is a liquid asset only where—
  - (a) that right—
    - (i) arises on the transfer by the society to the Stock Exchange money broker of a liquid asset which comes within paragraph 5 of Part I above, and
    - (ii) consists of a right to receive, or to call for the transfer to some other person of, a marketable security from the Stock Exchange money broker being a marketable security of the same issue and amount as the liquid asset so transferred,
  - (b) the transfer referred to in subparagraph (a)(i) above is effected through the CGO Service, and
  - (c) no asset other than a liquid asset specified in Part I above falls to be transferred to the society as security for the performance of the obligation of the Stock Exchange money broker under subparagraph (a)(ii) above.
- 7.—(1) An asset issued by a society which comes within paragraph 18 or 25 of Part I above is a liquid asset only where the total assets of the issuing society in its latest balance sheet laid before it at an annual general meeting amounted to no less than £1,000 million.
  - (2) For the purpose of subparagraph (1) above—
    - (a) where the engagements of a predecessor have been transferred to a society after the end of the financial year of the society to which a balance sheet referred to in that subparagraph relates, the total assets of the society shall be treated as increased by the amount of the total assets of the predecessor in the latest balance sheet laid before the predecessor at an annual general meeting, and
    - (b) where there is no latest balance sheet of a society to which subparagraph (1) above relates and the society has predecessors, the aggregate of the total assets of those predecessors in the latest respective balance sheets laid before them at their respective annual general meetings shall be treated as the total assets of the society to which subparagraph (1) above relates.
8. A loan which comes within paragraph 23 of Part I above is a liquid asset only where—
  - (a) it is secured by a charge on revenues of the relevant authority or on a fund into which such revenues are payable, or
  - (b) it is made on the giving of—
    - (i) a receipt for the loan by the Treasurer or other similar officer of the relevant authority, and

- (ii) an undertaking by the relevant authority that, if requested to charge the loan on revenues of the authority or on a fund into which such revenues are payable, it will either comply with the request or repay the loan.

9. A floating rate note which comes within paragraph 24 or 25 of Part I above is a liquid asset only where its terms do not provide that the right to receive any payment under it is, on the liquidation of its issuer, postponed to the rights of any class of persons specified or referred to in the floating rate note.

### PART III CIRCUMSTANCES IN WHICH, AND CONDITIONS SUBJECT TO WHICH, CERTAIN DESCRIPTIONS OF ASSETS MAY BE HELD BY SOCIETIES

1. A liquid asset issued by a society which comes within paragraph 18 or 25 of Part I above may be held only where, immediately following its acquisition, the aggregate of values of liquid assets within those paragraphs so held did not exceed 2.5 per cent of the amount of the total assets of the holding society in its latest balance sheet laid before it at an annual general meeting.

2. For the purpose of paragraph 1 above—

- (a) where the engagements of a predecessor have been transferred to a society after the end of the financial year of the society to which a balance sheet referred to in that paragraph relates, the total assets of the society shall be treated as increased by the amount of the total assets of the predecessor in the latest balance sheet laid before the predecessor at an annual general meeting, and
- (b) where there is no latest balance sheet of a society to which paragraph 1 above relates and the society has predecessors, the aggregate of the total assets of those predecessors in the latest respective balance sheets laid before them at their respective annual general meetings shall be treated as the total assets of the society to which paragraph 1 above relates.

### PART IV INTERPRETATION

In this Schedule—

“acceptance”, in relation to a bill, means signing as acceptor a bill addressed to the signatory, and “accept” shall be construed accordingly;

“Banking Act authorised institution” means—

- (a) until paragraph 2 of Schedule 5 (transitional provisions) of the Banking Act 1987<sup>(a)</sup> comes into force—
- (i) a recognised bank, or
- (ii) except in respect of the definition of “eligible bank” below, a licensed institution, and
- (b) once that paragraph comes into force, an institution which is, or is deemed by that paragraph to be, an authorised institution for the purposes of the Banking Act 1987;

“bill” means a bill of exchange;

“cash” means banknotes or coinage of any country or territory;

“certificate of deposit” means a certificate relating to money deposited with the issuer which recognises an obligation to pay a stated amount to bearer or to order, with or without interest, and by the delivery of which, with or without endorsement, the right to receive that stated amount, with or without interest, is transferable;

“the CGO Service” has the meaning which it has for the purposes of the Stock Transfer (Gilt-edged Securities) (CGO Services) Regulations 1985<sup>(b)</sup>;

“deposit” has—

- (a) until section 5 (meaning of “deposit”) of the Banking Act 1987 comes into force, the meaning which it would have for the purposes of the Banking Act 1979<sup>(c)</sup> were not section 1(5)(b) and (c) (which excludes loans by societies and lending businesses) included therein, and
- (b) once section 5 of the Banking Act 1987 comes into force, the meaning which it would have for the purposes of the Banking Act 1987 were not section 5(3)(b) and (c) (which excludes sums paid by societies and lending businesses) included therein;

“eligible bank” means a Banking Act authorised institution the business of which includes the acceptance of bills for the purpose of their being acquired at a discount by the Bank of England;

<sup>(a)</sup> 1987 c.22.

<sup>(b)</sup> S.I. 1985/1144.

<sup>(c)</sup> 1979 c.37.

“floating rate note” means a note which embodies a right, transferable to any person by delivery or by a method specified in the note, to receive a principal sum and interest at a rate which is variable at times specified in the note;

“gilt-edged market maker” means—

- (a) at any time when any list is being maintained by the Bank of England for the purposes of section 43 (listed money market institutions) of the Financial Services Act 1986(a), a person then included in any such list whose business includes the sale, directly to the Bank of England, of marketable securities issued in the United Kingdom by Her Majesty’s Government, and
- (b) at any other time, a person whose business includes the sale, directly to the Bank of England, of marketable securities issued in the United Kingdom by Her Majesty’s Government;

“licensed institution” has the meaning which it has for the purpose of the Banking Act 1979;

“local authority” means any of the following authorities:

- (a) in England and Wales, a county council, a district council, a London borough council, a parish or community council, the common Council of the City of London, and the Council of the Isles of Scilly;
- (b) in Scotland, a local authority within the meaning of section 235 of the Local Government (Scotland) Act 1973(b);
- (c) in Northern Ireland, a district council within the meaning of section 1 of the Local Government Act (Northern Ireland) 1972 (c) ;

“marketable security” means—

- (a) any security the price of which is quoted on the Stock Exchange; or
- (b) where that security comprises a bond which is not so quoted, a bond which is issued by a local authority in whole or in part to a person carrying on, in the United Kingdom, the business of a discount house;

“ordinary repayment notice” means a notice requiring repayment of a deposit or loan which neither contains nor is accompanied by a statement of reasons why it is served;

“recognised bank” has the meaning which it has for the purposes of the Banking Act 1979;

“relevant authority” means any of the following:

- (a) a local authority;
- (b) any authority all the members of which are appointed or elected by one or more local authorities;
- (c) any authority the majority of the members of which are appointed or elected by one or more local authorities in the United Kingdom, being an authority which by virtue of any enactment has power to issue a precept to a local authority in England and Wales, or a requisition to a local authority in Scotland, or to the expenses of which, by virtue of any enactment, a local authority in the United Kingdom is or can be required to contribute;
- (d) the Receiver for the Metropolitan Police District or a combined police authority (within the meaning of the Police Act 1964(d) );
- (e) a water authority within the meaning of section 2(3) of the Water Act 1973(e) ;
- (f) a passenger transport executive within the meaning of section 9(1) of the Transport Act 1968(f);
- (g) a residuary body within the meaning of section 105(1) of the Local Government Act 1985 (g) ;
- (h) the Inner London Education Authority established under section 18 of the Local Government Act 1985;

“securities” includes stock, debentures, debenture stock and bonds;

“Stock Exchange money broker” means—

- (a) at any time when any list is being maintained by the Bank of England for the purposes of section 43 of the Financial Services Act 1986, a person then included in any such list whose business includes the receipt of marketable securities in the circumstances set out in paragraph 6(a)(i) of Part II above and, where it includes it, includes an obligation to transfer those marketable securities to, or to the order of, a gilt-edged market maker, and
- (b) at any other time, a person whose business includes the receipt of marketable securities in the circumstances set out in paragraph 6(a)(i) of Part II above and, where it includes it, includes an obligation to transfer those marketable securities to, or to the order of, a gilt-edged market maker;

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(a) 1986 c.60.  
(e) 1973 c.37.

(b) 1973 c.65.  
(f) 1968 c.73.

(c) 1972 c.9 (N.I.).  
(g) 1985 c.51.

(d) 1964 c.48.

“Treasury bills” includes bills issued by Her Majesty’s Government in the United Kingdom and Northern Ireland Treasury Bills; and

“value” means the value at which a liquid asset is taken into the books of the society.

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#### **EXPLANATORY NOTE**

*(This note is not part of the Regulations)*

These Regulations set out (in Parts I and II of the Schedule) the liquid assets which a building society may hold under section 21 of the Building Societies Act for the purposes of meeting its liabilities as they arise. They replace article 7 of the Building Societies Act 1986 (Rules and Miscellaneous Transitional Provisions) Order 1986. Regulation 4 empowers societies to continue to hold previously acquired assets which fall outside Parts I and II of the Schedule but are validly held by virtue of that article, and assets which following acquisition have ceased being liquid assets (for example where an institution ceases to be a Banking Act authorised institution).