



Building Societies Commission
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T F Mathews
Commissioner

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Nigel Peace Esq
Secretary
Committee on the Financial Aspects of Corporate Governance
PO Box 433
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29 July 1992

Dear Mr. Peace,

THE FINANCIAL ASPECTS OF CORPORATE GOVERNANCE

The Building Societies Commission welcomes the Draft Report and proposed Code of Practice, which is very much in accord with principles which the Commission has sought to foster in the building society industry. There are, of course, significant differences between building societies and the companies to which the Report is directed.

2. The Building Societies Act 1986 provides that building societies must be mutual institutions, regulated and supervised by the Commission whose principle functions are to promote the protection of the investments of shareholders and depositors; shareholders being retail depositors in accounts carrying membership rights. Unlike equity shareholders in companies, the "owners" of building societies expect to be able to withdraw their investments in full.

3. Section 45 of the Act prescribes criteria of prudent management which include the maintenance of adequate capital and liquidity; an asset structure based on properly secured lending; accounting records and systems of control, inspection and report; direction and management by a sufficient number of persons with prudence, integrity and adequate professional skills. Sections 71 and 82 of the Act, amplified by a Commission Prudential Note require the board and the external auditors, independently, to make annual systems reports to the Commission. Those reports must include assessments of the materiality of any deficiencies, and the board report must include a correction programme with target dates. Regulations made by the Commission under the Act, together with Prudential Notes, prescribe the form and content of the Annual Report and Accounts which must be filed with the Commission and presented to the members within four months of the end of the financial year.

4. The Act places restrictions on societies dealings with directors and connected persons, and requires disclosure of those dealings which are permitted. Each society must have a single chief executive. The practice in the industry is for there to be a non-executive chairman, and the Commission would certainly need to hear very cogent arguments to persuade it that the two posts should be combined, other than in exceptional and temporary circumstances. The Commission has long advocated a non-executive/executive director balance of about 2:1, and that the chief executive and finance director at least should be board members (a finance director is not always feasible in very small societies). We also expect that retiring chief executives will not remain on the board, unless there are compelling reasons of continuity for temporary tenure. The Commission has it in mind to issue a Prudential Note which, in addition to the points discussed above, would cover the practice of rotation of the chairmanship and re-appointment of non-executive directors. The Committees Report is a most helpful contribution to our consideration of the issues.

5. Please let me know if you need any further information, or if you would like to discuss any of these matters.

Yours sincerely
Terry Mathews

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