

Bulletin

Banking Code Standards Board

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TO BANKING CODE AND BUSINESS BANKING CODE
COMPLIANCE OFFICERS

No. 14

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As usual, please circulate this Bulletin within your organisation for information or action as appropriate. Items which may require specific action on your part are listed in bold type in the Contents.

1. CODE DEVELOPMENTS

2004 Independent Review of the Codes

A copy of the BCSB submission, representing the views of our independent directors, to Elaine Kempson's review is attached (without appendices) as Appendix I to this Bulletin. We are placing the full submission, with its three appendices, on our website.

2. COMPLIANCE MONITORING AND ENFORCEMENT TOPICS

(i) Annual Statements of Compliance

At the time of writing, all the 2003 ASCs except one have been received. Only two subscribers have become liable for fines for late submission, compared with four last year. We have carried out the initial review and have written to all subscribers whose ASCs give rise to no queries. We are encouraged by the evidence of the care and thoroughness of most Compliance Officers in researching and completing the ASCs, in many cases reporting significant compliance initiatives undertaken in the last year.

The results of the full analysis and responses to queries will be reported to our April Board. In the meantime, one point has emerged from a number of ASCs that we would like to raise at this stage.

This concerns third parties and how to handle situations where more than one Code subscriber is involved in the provision of a product, for example with the 'badging' of a credit card on an affinity basis. This was mentioned in our covering letter when we sent out the ASCs at the end of October. We recognise that clear demarcation of compliance responsibilities is often not possible in such cases, but we have been concerned by a few instances where too much reliance appears to have been placed on a third party. In the event of doubt, we would rather see a degree of overlap rather than the risk of a gap resulting in compliance checks being neglected.

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APPENDIX I:

BCSB submission to 2004 Independent Review

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(ii) **2003 Codes Paragraph 4.8: downgraded savings account interest**

The downgrading provisions have become rather a hardy perennial in recent Bulletins. Assuming that this section of the Codes is not radically changed in the forthcoming review, we look forward to the opportunity to consolidate all the key interpretational points into the next edition of the Guidance to Subscribers.

In the meantime, one more point has arisen. This has taken on particular significance following the increases in Bank of England repo rate on 6 November 2003 and 5 February 2004. These have totalled 0.50 percentage points, which is sufficient to trigger a downgrading notification on any variable rate savings account where the rate on the account, or any tier thereof, has not been raised since the first of these repo rate increases.

The issue that has been raised with us is how to deal under paragraph 4.8 with minimum balance tiers, where the terms and conditions for the savings or deposit accounts make it clear that the tier will pay only nominal interest, for example 0.1%. When repo rate was coming down, it was not realistic to reduce these rates. Now that repo rate has gone back up, it is not reasonable to expect subscribers to raise rates on these designated low-balance tiers, even if the terms of the accounts in question permit this to be done.

We note that the Guidance does not currently cover this situation as a specific exception, although it comes close where it refers to tiers "below the minimum balance for the account" paying fixed or nominal rates (eg 0.5% or less). The spirit of this Guidance suggests that there should be an exception for any tier, whether or not technically "below the minimum", on which customers are told at account-opening that they will receive only a fixed or nominal rate.

We have agreed with the BBA and the BSA that we will apply this interpretation pending the full review of the Guidance to Subscribers later this year.

3. BCSB NEWS

(i) New subscriber

The Board has approved the application of Bank of Butterfield (UK) Limited, whom we are pleased to welcome as a subscriber to both Codes.

(ii) BCSB User Group

The Minutes of the User Group meeting on 22 January are enclosed with the postal mailing of this Bulletin (restricted distribution to Code subscribers only). The list of User Group members is on our website, enabling other Compliance Officers to contact members who may have a mutual interest in particular issues.

(iii) Fees for 2004/05

Our budget and fees for 2004/05 have now been approved by the Associations on behalf of the subscribers. The fee scales are set out on the next page.

Our latest forecast is that we shall end the current year on 31 March with a pre-tax surplus of £94k, compared to a budget figure of a loss of £11k. As a result, reserves are expected to have risen during the year from £537k to £622k. This assumes that corporation tax continues to be payable on our interest income only. There is however a possibility that we may have to pay corporation tax on total profits, in which case our 31 March 2004 net assets would fall to £521k. On either taxation basis, we shall by 31 March 2004 be significantly ahead of the target for reserves of £350k agreed by our Board.

In order to bring our reserves closer to our target level, we propose to reduce fees for subscribers to both Codes, and the 2004/05 Budget indicates a loss of £102k. This will reduce our reserves to £520k if we continue to pay

tax on interest income only, or to £419k if it becomes payable on total profits.

Assumptions made in our budget for 2004/05 include:

- Rigorous compliance monitoring of both Codes by our in-house team using the risk model.
- Managing the BCSB's activities efficiently and economically.
- No resignations or major consolidation of Code registrations before 1 April 2004.
- Some fees from major credit card issuers that are expected to become new subscribers during 2004/05.
- No increase in staff numbers.
- We reduce our market research / mystery shopping budget from £100k to £75k. In previous years, we have significantly underspent this budget.
- We remain in 33 St James's Square until December 2004 and then take over the MCCB's lease in 6 Frederick's Place, London EC2. This will enable us to save £50,000 in 2005/06.
- Future subscriber roadshows will be free for a certain number of delegates per subscriber, rather than making a charge of £60 per head.

To set the fee scale for subscribers to the personal Code for the last three years, the size of the subscriber's regulated business was measured by using a weighted total of personal accounts, on the following basis:

1 x current accounts, + 0.5 x savings accounts,
+ 0.5 x loan accounts, + 0.25 x credit card accounts.

These weighted totals were split into eleven bands. The User Group has confirmed that using numbers of accounts continues to be preferable to attempting to obtain data on customer numbers.

The Board has agreed that we should make one change, about which we gave notice last year. The Code now contains much more relating to credit cards, so we propose that credit card account numbers should be weighted at 0.5 rather than 0.25. In practice this will not affect fee levels much: most of the major card issuers are already in the top band.

We are reducing fees by 10% in 2004/05, making this the third successive year in which fees have been reduced. We hope this sends a strong message that the BCSB is tightly managed and that self regulation is cost effective.

The 2003/04 fee scale raised revenue of £1,157k, so there will be an overall reduction of 8.8%. Seven subscribers will pay more in 2004/05 as a result of growth or creeping into higher bands. All the rest will pay less.

Last year, the fee scale for the Business Banking Code, split into six bands, was based on the weighted total of the accounts that the institution had for businesses with a turnover of less than £1 million pa. The weightings were:

1 x current accounts, + 1 x loan accounts, + 0.5 x savings accounts, + 0.5 x merchant acquiring accounts, + 0.25 x credit card accounts.

The credit card weighting for 2004/05 is being increased to 0.5, as with the personal Code. Again, there will be a reduction of 10% in the fee scales.

This fee scale will involve a slight increase in total fees of £435 compared to what subscribers paid in 2003/04. This results entirely from one bank moving from Band 2 into Band 1. All the others will pay less.

(iv) BCSB London office

You will note from the budget assumptions that we plan to take over the MCCB's offices in the City of London after the transfer of their responsibilities to the FSA at the end of October. We shall be in touch with subscribers nearer the removal date, but we do not expect any significant disruption.

BCSB FEE SCALES 2004/05

(NET OF VAT)

2004/05 FEE SCALE FOR BANKING CODE REGISTRATIONS						
BAND	WEIGHTED ACCOUNTS '000	FEE 2002/03 £	FEE 2003/04 £	FEE 2004/05 £	NO. OF SUB-SCRIBERS	TOTAL REVENUE £
1	> 10,000	75,000	67,500	60,750	7	425,250
2	4,000- 10,000	50,000	45,000	40,500	1	40,500
3	1,000 - 4,000	31,000	27,000	24,300	9	218,700
4	500 - 1,000	25,000	20,000	18,000	6	108,000
5	200 – 500	14,000	12,000	10,800	13	140,400
6	100 – 200	6,000	5,000	4,500	7	31,500
7	50 –100	3,000	2,500	2,250	9	20,250
8	25 – 50	2,250	2,000	1,800	14	25,200
9	10 – 25	1,750	1,500	1,350	22	29,700
10	5 – 10	1,000	750	675	9	6,075
11	< 5	750	500	450	21	9,450
TOTAL					118	1,055,025

2004/05 FEE SCALE FOR BUSINESS BANKING CODE REGISTRATIONS						
BAND	WEIGHTED ACCOUNTS '000	FEE 2002/03 £	FEE 2003/04 £	FEE 2004/05	NO. OF SUB-SCRIBERS	TOTAL REVENUE £
1	> 1,000	20,000	15,000	13,500	4	54,000
2	100 - 1,000	7,000	5,000	4,500	4	18,000
3	50 - 100	2,500	2,000	1,800	1	1,800
4	20 – 50	1,500	1,250	1,125	5	5,625
5	10 – 20	750	750	675	2	1,350
6	<10	250	250	225	10	2,250
TOTAL					26	83,025

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