



Building Societies Act 1986

1986 CHAPTER 53

PART II

CONSTITUTION OF BUILDING SOCIETIES

Raising funds and borrowing

[^{F17} **The funding limit.**

- (1) A building society shall secure that the difference between—
- (a) the value of X on any quarter day; and
 - (b) the value of Y on that day or the value of Y on the immediately preceding quarter day, whichever is the greater,
- does not exceed 50 per cent of that value of X.

- (2) For the purposes of subsection (1) above—

X = the aggregate of the following, namely—

- (a) the principal value of, and interest accrued on, shares in the society;
- (b) the principal of, and interest accrued on, sums deposited with the society or any subsidiary undertaking of the society; and
- (c) the principal value of, and interest accrued under, bills of exchange, instruments or agreements creating or acknowledging indebtedness and accepted, made, issued or entered into by the society or any such undertaking; and

Y = the principal value of, and interest accrued on, shares in the society held by individuals otherwise than as bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate.

- (3) The following shall be disregarded for the purposes of subsection (2) above, namely—
- (a) any sums or amounts which are own funds; ^{F2}...

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- [subject to subsection (3A), the principal of, and interest accrued on, sums
^{F3}(aa) deposited with the society or any subsidiary undertaking of the society by a small business (see subsection (10));]
- (b) to the extent that they are not included in the total liabilities of the society and any subsidiary undertakings of the society as shown in the society's accounts—
- (i) any sums deposited with the society or any such undertaking; and
 - (ii) any indebtedness created or acknowledged by bills of exchange, instruments or agreements accepted, made, issued or entered into by the society or any such undertaking.
- [In respect of any day by reference to which the value of X falls to be calculated for the
^{F4}(3A) purposes of subsection (1) in relation to the society, the total amount to be disregarded under subsection (3)(aa) may not exceed 10% of the amount that would, in the absence of subsection (3)(aa), be the value of X on that day.]
- (4) The reference in subsection (3) above to anything being shown in a society's accounts shall be construed—
- (a) in relation to a quarter day on which a financial year of the society ends, as a reference to its being shown in the accounts prepared by the society for that year;
 - (b) in relation to any other quarter day, as a reference to its being shown in the accounts which would have been prepared by the society for the year ending on that day if that year were a financial year of the society.
- (5) If a building society fails to comply with the requirement imposed by subsection (1) above—
- (a) the powers conferred on the [^{F5}appropriate authority] by section 36 shall become exercisable in relation to the society; but
 - (b) the failure shall not affect the validity of any transaction or other act.
- (6) Where an individual declares that he is acquiring any shares in a building society otherwise than as a bare trustee (or, in Scotland, a simple trustee) for a body corporate, or for persons who include a body corporate, he shall, unless the contrary is shown, be conclusively presumed for the purposes of this section to hold the shares otherwise than as such a trustee.
- [Where a person declares that the person is a small business, the person shall, unless
^{F6}(6ZA) the contrary is shown, be conclusively presumed for the purposes of this section to be a small business.]
- (7) The [^{F7}Treasury may], by order—
- (a) modify subsections (2) and (3) above in their application to liabilities of subsidiary undertakings;
 - (b) apply those subsections to corresponding liabilities of associated undertakings; or
 - (c) modify those subsections in their application to such liabilities.
- (8) An order under subsection (7) above may make—
- (a) different provision for different circumstances;
 - (b) provision for particular liabilities of undertakings to be disregarded; and
 - (c) such supplementary, transitional and saving provision as appears to the [^{F8}Treasury] to be necessary or expedient.

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- (9) The power to make an order under subsection (7) above is exercisable by statutory instrument which shall be subject to annulment in pursuance of a resolution of either House of Parliament.]
- [^{F9}(10) In this section “small business” means any person (other than an individual acting as a sole trader) carrying on a business which had a turnover in the relevant financial year of less than £1,000,000.
- (11) For the purposes of subsection (10)—
- (a) the “relevant financial year”, in relation to any day by reference to which the value of X falls to be calculated for the purposes of subsection (1) in relation to a building society, means the last financial year ending before that day;
 - (b) “turnover”, in relation to a small business, means the amount derived from the provision of goods and services falling within the business's ordinary activities, after deduction of trade discounts, value added tax and any other taxes based on the amounts so derived;
 - (c) in respect of any relevant financial year, the reference to £1,000,000 includes the equivalent amount in any other currency, calculated as at the last day of that year.
- (12) The Treasury may, by order made by statutory instrument, amend the figure for the time being specified in subsections (10) and (11)(c).
- (13) A statutory instrument containing an order under subsection (12) is subject to annulment in pursuance of a resolution of either House of Parliament.]

Textual Amendments

- F1** S. 7 substituted (1.12.1997 in specified cases and for specified purposes and otherwise in accordance with art. 2(2)(3)(5) of S.I. 1997/2668) by 1997 c. 32, **ss. 8, 47(3)**; S.I. 1997/2668, art. 2, **Sch. Pt. II(g)**
- F2** Word in s. 7(3)(a) omitted (18.2.2014) by virtue of Financial Services (Banking Reform) Act 2013 (c. 33), s. 148(2), **Sch. 9 para. 2(2)**
- F3** S. 7(3)(aa) inserted (18.2.2014) by Financial Services (Banking Reform) Act 2013 (c. 33), s. 148(2), **Sch. 9 para. 2(2)**
- F4** S. 7(3A) inserted (18.2.2014) by Financial Services (Banking Reform) Act 2013 (c. 33), s. 148(2), **Sch. 9 para. 2(3)**
- F5** Words in s. 7(5)(a) substituted (1.4.2013) by The Financial Services Act 2012 (Mutual Societies) Order 2013 (S.I. 2013/496), art. 1(1), **Sch. 8 para. 6** (with Sch. 12)
- F6** S. 7(6ZA) inserted (18.2.2014) by Financial Services (Banking Reform) Act 2013 (c. 33), s. 148(2), **Sch. 9 para. 2(4)**
- F7** Words in s. 7(7) substituted (17.8.2001 for certain purposes and otherwise 1.12.2001) by S.I. 2001/2617, arts. 2, 8, 13(1), **Sch. 3 Pt. I para. 136(b)** (with art. 13(3), Sch. 5); S.I. 2001/3538, **art. 2(a)**
- F8** Word in s. 7(8)(c) substituted (17.8.2001 for certain purposes and otherwise 1.12.2001) by S.I. 2001/2617, arts. 2, 8, 13(1), **Sch. 3 Pt. II para. 136(c)** (with art. 13(3), Sch. 4); S.I. 2001/3538, **art. 2(a)**
- F9** S. 7(10)-(13) inserted (18.2.2014) by Financial Services (Banking Reform) Act 2013 (c. 33), s. 148(2), **Sch. 9 para. 2(5)**

Modifications etc. (not altering text)

- C1** S. 7 applied (with modifications) (7.4.2010) by The Building Societies (Financial Assistance) Order 2010 (S.I. 2010/1188), arts. 1(2), **5**

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- C2** S. 7(2) modified (1.1.2005) by The Building Societies Act 1986 (Modification of the Lending Limit and Funding Limit Calculations) Order 2004 (S.I. 2004/3200), arts. 1(2), **4**
- C3** S. 7(2)(3) modified (6.4.2007) by The Building Societies Act 1986 (Substitution of Specified Amounts and Modification of the Funding Limit Calculation) Order 2007 (S.I. 2007/860), arts. 1, **3**
- C4** S. 7(2)(c) extended (24.6.2003) by The Uncertificated Securities (Amendment) (Eligible Debt Securities) Regulations 2003 (S.I. 2003/1633), reg. 1(1), **Sch. 2 para. 11(a)**
- C5** S. 7(3)(b)(ii) extended (24.6.2003) by The Uncertificated Securities (Amendment) (Eligible Debt Securities) Regulations 2003 (S.I. 2003/1633), reg. 1(1), **Sch. 2 para. 11(b)**
- C6** S. 7(7)(8): Functions of the Building Societies Commission transferred (1.12.2001) to the Treasury by S.I. 2001/2617, art. 2(b), 4(1), **Sch. 1 Pt. III**; S.I. 2001/3538, **art. 2(a)**

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Changes and effects yet to be applied to :

- s. 7(8) words inserted by [2007 c. 26 s. 1\(1\)\(b\)](#)

Changes and effects yet to be applied to the whole Act associated Parts and Chapters:

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- s. 5(11)-(14) inserted by [2007 c. 26 s. 1\(2\)](#)
- s. 5(13)(a) substituted by [S.I. 2013/496 Sch. 8 para. 4\(4\)](#)
- s. 7(6A)-(6C) inserted by [2007 c. 26 s. 1\(1\)\(a\)](#)
- s. 7(8A) inserted by [2007 c. 26 s. 1\(1\)\(c\)](#)
- s. 176ZB excluded by [S.I. 2017/400 reg. 14](#)
- s. 246ZA-246ZC excluded by [S.I. 2017/400 reg. 15](#)
- s. 246ZD excluded by [S.I. 2017/400 reg. 16](#)