

1986 No. 2098**BUILDING SOCIETIES****The Building Societies (Prescribed Contracts) Order 1986**

Made - - - 2nd December 1986

Laid before Parliament 4th December 1986

Coming into Operation 1st January 1987

The Building Societies Commission, with the consent of the Treasury, in exercise of the powers conferred on it by section 23(2) of the Building Societies Act 1986(a), and of all other powers enabling it in that behalf, hereby makes the following Order:—

Citation and commencement

1. This Order may be cited as the Building Societies (Prescribed Contracts) Order 1986 and shall come into operation on 1st January 1987.

Interpretation

2. In this Order —

“participant” means a party to a prescribed contract to which a society is also a party;

“prescribed contract” means an agreement the terms of which include —

(a) the terms set out for sterling interest rate swaps in Part I of the Schedule hereto, or

(b) the terms set out for capital and interest currency swaps in Part II of the Schedule hereto; and

“society” means a building society.

Prescribed contracts

3.—(1) Subject as specified below, a society may, for the purposes of section 23(1) of the Building Societies Act 1986 (which empowers societies with qualifying asset holdings to hedge), effect prescribed contracts.

(2) A society may only effect a prescribed contract where it has borrowed or intends to borrow a principal sum and the prescribed contract relates to a principal sum equal to it or less than it.

(a) 1986 c.53.

(3) No prescribed contract may be effected by a society save where another participant is a bank authorised, as at 31st December 1986, to hold funds of societies under section 59 of the Building Societies Act 1962(a) or of the Building Societies Act (Northern Ireland) 1967(b) (dealing with banks authorised to hold such funds).

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 27th November 1986.

L.S.

G. M. Binns,
Secretary to the Commission.

We consent to this Order.
2nd December 1986.

Michael Neubert,
Peter Lloyd,
Two of the Lords Commissioners
of Her Majesty's Treasury.

SCHEDULE

Article 2

PART I

TERMS FOR STERLING INTEREST RATE SWAPS

A society agrees with a participant that —

- (a) the society will pay to, or to the order of, the participant, and
- (b) the participant will pay to, or to the order of, the society,

sums calculated in each case by applying a rate of interest to a principal sum in sterling identified for the purposes of the agreement, in accordance with methods of payment and of calculation of interest set out or referred to in the agreement.

PART II

TERMS FOR CAPITAL AND INTEREST CURRENCY SWAPS

A society agrees with a participant that —

- (a) the society will pay to, or to the order of, the participant —
 - (i) a principal sum in a foreign currency identified for the purposes of the agreement, and
 - (ii) sums in sterling calculated by applying a rate of interest to the principal sum referred to in subparagraph (b)(i) below,
- (b) the participant will pay to, or to the order of, the society —
 - (i) a principal sum in sterling identified for the purposes of the agreement, and
 - (ii) sums in that foreign currency calculated by applying a rate of interest to the principal sum referred to in subparagraph (a)(i) above, and

(a) 1962 c.37.

(b) 1967 c.31 (N.I.).

- (c) during the currency of or on termination of the obligations referred to in subparagraphs (a)(ii) and (b)(ii) above —
- (i) the society will repay to, or to the order of, the participant the principal sum referred to in subparagraph (b)(i) above, and
 - (ii) the participant will repay to, or to the order of, the society the principal sum referred to in subparagraph (a)(i) above,
- in accordance with methods of payment and of calculation of interest, and of payment and repayment of principal, set out or referred to in the agreement.
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EXPLANATORY NOTE

(This Note is not part of the Order.)

This Order prescribes sterling interest rate swaps and capital and interest currency swaps as types of contracts which a building society may enter into under section 23 of the Building Societies Act 1986, which empowers the Commission to prescribe types of contract which a building society may enter into for the purposes of reducing the risk of loss. Any contract under this Order is required by Article 3 to relate to a sum equal to, or less than, a sum which the society has borrowed or intends to borrow, and to be made with a bank authorised on 31st December 1986 to hold funds of building societies. The power to enter into such contracts is limited to societies which have commercial assets of at least £100 million and which have adopted the power in section 23.

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