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CFM14080 - Understanding Corporate Finance: The Legal and Regulatory Framework: Regulated Entities: Building Societies

United Kingdom: HM Revenue & Customs

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HMRC internal manual

Corporate Finance Manual

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CFM14080 - Understanding corporate finance: the legal and regulatory framework: regulated entities: building societies

Defintion of a building society

A building society is a mutual institution. This means that most people who have a savings account, or mortgage, are members and have certain rights to vote and receive information as well as to attend and speak at meetings. Each member has one vote, regardless of how much money they have invested or borrowed or how many accounts they may have.

Building societies, therefore, are different to banks which are companies often listed on the stock market and thus owned by, and run for, their shareholders. Building societies have no external shareholders.

For tax purposes, a building society is defined as a building society within the meaning of the Building Societies Act 1986.

The legal definition of a building society has 4 key elements:

- Principal purpose
- Powers
- Characteristics of the balance sheet
- Nature of membership

BSA86/S5(1) provides that a building society may only be established under the BSA if its 'purpose or principal purpose is that of making loans which are secured on residential property and are funded substantially by its members' and whose principal office is in the UK.

BSA86 applies restrictions on certain transactions for building societies and anything not so restricted is a legal part of a building society's business. Sections 9A and 9B set out transactions that a building society is not permitted to undertake and includes:

- Acting as a market maker in securities, commodities, or currencies
- Trading in commodities or currencies
- Entering into any transaction involving derivative instruments

BSA86/S7 requires building societies to raise at least 50% of their funds from members and section 6 provides that a building society needs to hold at least 75% of its assets (excluding liquid assets and fixed assets) in loans fully secured on residential property.

BSA86/SCH2/PARA5(1) provides that the members of a building society are shareholding investors and mortgage borrowers.

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