Permanent Interest Bearing Shares (PIBS) Fact Sheet

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Permanent Interest Bearing Shares (PIBS) were first introduced in 1991. They are irredeemable shares issued by Building Societies and are traded on the London Stock Exchange.

The shares carry a higher interest rate than ordinary building society share accounts (deposit accounts) and represent a long-term contribution to the capital of the society. PIBS are higher risk than ordinary shares, ranking behind them on the winding up or dissolution of the Society. PIBS are not protected investments for the purposes of the Building Societies Investor Protection Fund. PIBS are generally purchased by institutions and investors who are prepared to accept a high level of risk and a fluctuating capital value in return for high fixed-income payments.

INTEREST

Interest is payable (after ordinary account holders) annually or six-monthly in arrears. There is no guarantee of capital return and, therefore, rates will tend to be higher than returns on Gilts. Please note, however, that when comparing like-for-like you should pay attention to the price per share and the yield, rather than the interest rate itself. Interest payments are generally non-cumulative and in the event of a failed payment, no obligation is carried forward.

BUYING AND SELLING

The market for PIBS is small and less liquid than Gilts, which can mean a big difference between the buying and selling price. A stockbroker can arrange the purchase and sale of PIBS on your behalf. PIBS are not usually redeemable, so if you wish to sell a holding a buyer must be sought. The amount of capital that you receive from a sale will depend on the prevailing market price which may fluctuate. Many PIBS are only tradable in relatively large, pre-set tranches and one may have to commit a substantial sum when investing.

OTHER RISKS TO CONSIDER

PIBS differ from fixed-term bonds sold over-the-counter in the building society in that they are not regarded as deposits with the building society issuing them. That means they are not protected under the Financial Services Compensation Scheme (FSCS) Deposit Protection Compensation scheme if the building society was to cease trading. Some PIBS also contain a 'Call', meaning the building society may (or may not) re-purchase the PIBS at some point in the future. The amount investors receive may not be 'par' value and may be less than they invested, so care should be taken. Consideration should also be given to the possibility of the status of the institution changing, for example, from a building society to a bank. An investor does not know what status their PIBS will have relative to other types of debt. In extreme circumstances it is also possible for issuers to suspend income payments and this will, in turn, have an effect on the PIBS' price in the market.

TAXATION

Capital gains arising from PIBS are exempt from Capital Gains Tax. Income is subject to basic, higher and additional rate Income Tax. Income is paid gross and tax is deducted through investors' tax returns.

Investments and income arising from them can fall as well as rise in value and you may lose some or all of the amount you have invested. Tax treatment depends on the specific circumstances of each individual and may be subject to change in the future.