



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Kevin Hollinrake MP  
House of Commons  
London  
SW1A 0AA

20<sup>th</sup> February 2019

Dear Kevin,

Thank you for your letter of 31 January regarding the regulation of SME lending in the Republic of Ireland, following your letter of 29 November and my response of 19 December on the same subject.

While I appreciate the points you have raised about SME lending regulation in Ireland, the Government's position on regulating SME lending in the UK was set out in my letter to you of 3 December on SME dispute resolution. I do not believe that there is any value in trying to compare the complexities of SME lending markets in differing economies, and I hope you understand that this means that my response will not cover every point contained in your letter.

It is worth reiterating that the Government is committed to regulating only where there is a clear case for doing so, to avoid putting additional costs on lenders that could ultimately lead to higher costs for businesses. As you know, it is my view that there would be a number of direct and indirect costs associated with such a move.

Direct costs would include annual Financial Conduct Authority (FCA) fees, product reviews and increased compliance and monitoring costs; while indirect costs would include stifled product innovation, narrower product choice for SMEs, and higher barriers to entry leading to reduced competition in the SME lending market. These changes could in turn impact on the price and availability of credit for small businesses, which is not a desirable outcome.

Your letter refers to the historic mistreatment of UK SMEs by financial institutions. As I have said on many occasions, the industry has changed significantly since that challenging period. For example, all major lenders are now signed up to the Standards of Lending Practice. Overseen by an independent monitoring body, the Lending Standards Board, the Standards set the benchmark for good business lending practice in the UK. Covering eight main areas for lenders – including the sale of debt to third parties – the standards apply to loan, overdraft and credit card products provided to businesses with a turnover of up to £6.5 million.

Furthermore, with the introduction of the Senior Managers & Certification Regime (SMCR) in March 2016, the FCA now also has the ability to take enforcement action against individuals through the regime, holding the senior management of banks to account for the way they treat their SME customers. While the SMCR is a recent reform

and further time will be needed to see its full impact, we are beginning to see its effects in improving conduct and promoting a culture of personal responsibility within firms.

Thank you for your ongoing interest in seeking the best outcomes for UK SMEs. I look forward to continuing to work with you on this issue.

with very best regards

A handwritten signature in black ink that reads "John". The letter "J" is large and stylized, and the "n" is written in a cursive style. There is a small horizontal line under the "n".

JOHN GLEN