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

Kevin Hollinrake MP
House of Commons
London
SW1A 0AA

By email

3 December 2021

Dear Kevin,

This morning the Bank of England published an updated Statement of Policy on the UK's MREL regime following on from its review of the regime. Alongside this, the Bank published a policy statement explaining the changes it has made to the regime and responding to the feedback it received on the consultation it ran between July and October this year. These are available here: https://www.bankofengland.co.uk/paper/2021/boes-review-of-its-approach-to-setting-mrel-consultation-paper-july-2021.

I know you are keenly interested in the banking sector, and have raised MREL in Parliament on several occasions, and therefore wanted to write to you to make a few points about considerations the review has addressed.

Although the Bank leads on setting MREL policy as the UK's resolution authority, the Treasury has worked closely with the Bank on their MREL review. MREL is a relatively new policy and I am pleased that the Bank has taken steps to address points raised in industry feedback to their consultation, such as longer, more flexible transition periods, more advanced certainty and a review of the transactional accounts threshold.

I would like to make clear that the outcome of the review has not been driven by HMT's risk appetite on the use of public funds. As the Bank has set out today, the Bank's decision not to raise MREL thresholds is based on their assessment of the risks of managing the failure of firms above these thresholds through insolvency proceedings.

Were a bank to enter insolvency, its depositors would be protected by the FSCS, and receive their money within seven days, but small business overdrafts would be frozen. Deposits from individuals above the FSCS limit and the uncovered deposits of businesses and charities would also be inaccessible and risk being subject to loss. In addition, even the short-term loss of access to transactional accounts could have wide-ranging and significant impacts.

Furthermore, the disruption from one firm's failure could quickly transmit to others, with customers becoming wary of banking with other firms without MREL. The larger and more complex a firm, the more profound these impacts would be. Ultimately, in the absence of MREL, a choice may emerge; allowing depositors to lose access to their money, denting public confidence and disrupting the broader economy, or expose taxpayer funds. Following consultation with HMT and others, the Bank has set the thresholds to reflect these risks while ensuring a proportionate approach for growing firms. I support the balance achieved by this judgement.

I have noted suggestions from industry that a pre-funded FSCS could support an increase in the thresholds. FSCS is already funded and will pay out within seven days on protected deposits. The government stands ready to lend to the FSCS to fund any costs that cannot safely be met by levy paying banks in the short-term. Moreover, a pre-fund would do very little to address the risks of disruption described above.

I have also noted points raised about the differing approaches to MREL in the EU and US. Due to structural differences in banking markets, the regimes are not easily comparable – the EU's regime is also still evolving. A focus on headline asset thresholds would fail to capture other aspects of our respective regimes. For example, both the US and EU pre-fund their deposit guarantee schemes in a way that places burdens on firms below the thresholds in those markets that firms in the UK market are not subject to.

The government remains committed to supporting competition within the banking sector, to deliver choice and value for customers. In recent years there has been significant action to back competition in banking, including making it easier to switch banks, and encouraging new banks to enter the market by substantially lowering barriers to entry. Open Banking has the potential to be transformative, promoting greater competition and innovation in the sector in a safe, secure manner supporting customers' interests. The Chancellor also announced at the Budget that the bank surcharge's annual allowance will rise from £25mn to £100mn from April 2023. This will encourage competition and ensure our tax system supports growth for smaller retail and challenger banks.

As City Minister, I will continue to pursue opportunities to foster competition within the sector. That said, I do not believe this should be done in a way that the Bank judges may undermine the UK's financial stability.

With warm regards,

John P. Glen

JOHN GLEN MP