

HOUSE OF COMMONS  
LONDON SW1A 0AA



Sam Woods  
Chief Executive Officer  
Prudential Regulation Authority  
20 Moorgate  
London EC2R 6DA

27<sup>th</sup> March 2023

Dear Mr Woods,

As Co-Chairs of the APPG on Fair Business Banking, we would like to raise the issue of SME access to finance.

As you are no doubt aware, increasing the supply of credit to SMEs has long been a core aim of the APPG on Fair Business Banking. In a speech at Mansion House in 2019, Governor of the Bank of England Mark Carney noted that SMEs, the engine room of our economy, face a £22 billion funding gap. The UK's current financial system, which has historically been dominated by four large shareholder driven banks, often falls short in supporting SMEs and individuals that find finance difficult to access. This relatively limited supply of credit remains a particularly pertinent issue for many SMEs facing rising costs in the context of the ongoing cost-of-living crisis.

We are therefore concerned that the Prudential Regulation Authority's (PRA) plans to overhaul the capital treatment for SME lending are predicted to result in a 25% cut to SME lending, according to a report from Oxera cited in the [Financial Times](#). The mooted £44 Billion drop in SME lending could be a significant blow to the businesses underpinning our economic recovery, and the APPG on Fair Business Banking is naturally concerned by reports of such a drastic reduction in much-needed SME finance.

Significant progress has been made over the past decade in diversifying and enhancing SME lending options in the UK, including the proliferation of SME focused Challenger banks. If these reforms stifle SME lending to the extent estimated by Oxera, they would represent a significant step backwards. We would therefore be extremely grateful to meet with you to discuss the PRA's proposed reforms.

Please note that we will be placing this letter, and any reply, in the public domain.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Simon Fell'.

Simon Fell MP  
Co-Chair,  
APPG on Fair Business Banking

A handwritten signature in blue ink, appearing to read 'William Wragg'.

William Wragg MP  
Co-Chair,  
APPG on Fair Business Banking