

European Scrutiny Committee

House of Commons London SW1A 0AA

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From: Sir William Cash MP

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John Glen MP
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COVID-19: Amendments to the EU's Capital Requirements Regulation

As you are aware, the European Commission published a proposal on 28 April containing substantive changes to the EU's Capital Requirements Regulation (CRR) to soften the impact prudential rules may have on banks' ability to lend to businesses, and help them weather the economic crisis triggered by the coronavirus pandemic.¹ This draft legislation appears to go beyond the recommendations for additional flexibility in the implementation of the Basel III standards agreed by the Basel Committee on Banking Standards in March and April this year, especially with respect to the prudential treatment of certain loans and assets, and the calculation of banks' leverage ratio.

We are disappointed that the Explanatory Memorandum you provided on the Commission proposal on 20 May was not submitted within the usual 10 working days and, moreover, contained very little information on the Government's position, as any changes to the Capital Requirements Regulation will be of direct relevance to the UK during the post-Brexit transition period.

¹ Proposal for a Regulation amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards adjustments in response to the COVID-19 pandemic; 7620/20, COM(2020) 310, (41219).

First, as the Government itself recognises, the UK is in a unique position, affected by EU laws and policies for as long as the transition period lasts, but with no presence or say when they are being discussed and agreed within the EU institutions. This is of particular concern in a case such as this, where legislative changes are being considered that affect a key British industry, without Treasury input and formal UK representation and agreement.

Second, this particular EU proposal is directly linked to the COVID-19 crisis and relates to a sector that is not only important economically in its own right and but also plays a vital role in the recovery.

In this context, noting the information provided in your Memorandum, we ask you to write to us by 10 June. We expect this letter to:

- set out the Government's position on the proposed changes made to the EU's prudential framework in more detail, especially with respect to the proposed amendments that do not flow from the Basel Committee's recommendations and the package's expected impact on the lending by the British banking industry during this crisis; and
- clarify whether the Government has sought or is seeking any changes to the draft Regulation, and whether it has been successful in securing them.

I am copying this letter to the Rt Hon. Mel Stride MP and Gosia McBride, Chair and Clerk of the Treasury Committee; to the Rt Hon. Hilary Benn MP and Gordon Clarke, Chair and Clerk of the Committee on the Future Relationship with the EU; to Lord Kinnoull and Christopher Johnson in the Lords; to Les Saunders at the Cabinet Office; and to Maitreya Thakur and James Chandler at your Department.

CHAIR