



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

Harriett Baldwin MP
Chair of the Treasury Committee
House of Commons
London
SW1A 0PW

21 March 2023

Dear Harriett,

SILICON VALLEY BANK UK

Thank you for your letter of 14 March. I appreciate your gratitude for the work that the Bank of England and the Government undertook to facilitate a private sale of Silicon Valley Bank UK on Monday. The situation was of obvious concern and I am pleased to have delivered an outcome that protected SVB UK's customers, limited risks to the technology and life sciences sectors and protected the taxpayer.

Thank you as well for your questions ahead of the Bank of England's Committee appearance on 28 March.

- 1. The Bank of England said on 10 March that it intended to place SVB UK into insolvency. Were you concerned about this approach, and to what extent did the Treasury intervene in the resolution process in favour of facilitating a sale?**

In choosing between the resolution tools set out in the Banking Act 2009, the Bank of England has the discretion and flexibility to consider the relative merits of the stabilisation options versus insolvency, taking into account the relevant circumstances at the time.

It is generally important for market discipline that firms – including banks and building societies – should not be immune from failure. In this context, the Bank Insolvency Procedure is often considered to be the option that best meets the special resolution objectives where the most appropriate outcome would be the prompt payout of covered deposits or the bulk transfer of their accounts to another institution by the Financial Services Compensation Scheme (FSCS),

followed by winding up of the failed firm's affairs in the interests of creditors as a whole.

In the case of SVB UK, whilst the Bank of England initially announced on 10 March its intention to place the firm into insolvency, it made clear that this was "absent any meaningful further information." The subsequent emerging developments that made clear the risks to the firm's customer base, in particular those in the technology and life sciences sectors, meant that there was a public interest in ensuring uncovered depositors did not incur significant losses and continued to have access to banking services. Moreover, the Bank's statement effectively put the firm up for sale, publicly setting a time limit for further decisions to be taken. Following this, the willingness of potential buyers for SVB UK provided more meaningful further information that meant it was not necessary for the bank to be placed into insolvency.

For this reason, the Bank instead exercised its power to transfer SVB UK to a private sector purchaser, as this was determined to be the most effective approach in meeting the special resolution objectives. It was deemed that a private sector purchaser approach was viable because:

- there were existing potential buyers in the market;
- there was sufficient time to conduct private sector transfer;
- the quality of the business meant Silicon Valley Bank UK was a viable investment for a sale;
- the stabilisation option presented a low risk to public funds; and
- there was a high chance of Silicon Valley Bank UK being able to maintain its operations.

2. What criteria does the Government use to decide whether to coordinate a rescue mission for a failed bank?

The Banking Act 2009 sets the UK's statutory framework for financial stability and depositor protection, and was introduced in the wake of the Global Financial Crisis to ensure the authorities had the necessary tools and powers to safely manage the failure of financial institutions, such as banks.

Central to the Act was the introduction of the Special Resolution Regime (SRR), providing the Bank of England, the Prudential Regulation Authority (PRA) the Financial Conduct Authority (FCA) and His Majesty's Treasury (the authorities) with tools to intervene and resolve failing financial firms in order to limit risks to financial stability, depositors, taxpayers and the wider economy. The Bank is the UK's resolution authority, and is responsible for executing all stabilisation options provided for under the SRR, with the exception of the temporary public ownership option which is the responsibility of the Treasury.

As set out in section 4 of the Act, in determining whether to take resolution action and choosing with stabilisation options to pursue, the authorities are

required to have regard to a number of equal-ranking objectives, which included:

1. To ensure the continuity of UK banking services;
2. To protect and enhance the stability of the UK financial system, in particular by preventing contagion and maintaining market discipline;
3. To protect and enhance public confidence in the stability of the UK financial system;
4. To protect public funds;
5. To protect depositors and investors to the extent that they have deposits or investments covered by the FSCS;
6. To protect client assets; and
7. To avoid interfering with property rights

As set out in section 7 of the Act, a stabilisation power can only be exercised if all of the following conditions are met:

1. the institution is failing or likely to fail;
2. it is not reasonably likely that action will be taken by or in respect of the institution that will prevent the failure of the firm;
3. the action is necessary in the public interest; and
4. the SRR objectives would not be met to the same extent by winding up the firm

In terms of the stabilisation options available, the Bank is responsible for exercising the powers to transfer a firm to a commercial buyer, to transfer a firm to a Bank of England-owned “bridge bank”, or to exercise the bail-in tool. HM Treasury is responsible for the temporary public ownership option.

Further detail on the criteria for exercising stabilisation powers can be found in the Banking Act 2009, and the Banking Act 2009: special resolution regime code of practice (revised December 2020).

3. Had the sale of SVB UK not been achievable, would you have been prepared to allow it to enter insolvency and for some SVB UK depositors to lose money? What other support options were you considering?

The authorities have a range of tools and options to choose from when deciding how best to manage a failing financial firm, and contingency plan for a range of different scenarios. In that context, the Bank of England, in consultation with the Treasury, considered the range of options available to determine how best to proceed with regards to SVB UK, before determining that using the private sector purchaser tool produced the best outcome having regard to the special resolution objectives. In particular, this outcome ensured that SVB UK’s customers were fully protected.

4. Is the Treasury undertaking work to assess where similar concentrations of risk arise in the financial sector from strategic sectors of the economy, and how it can mitigate those risks?

As the Bank of England said on 20 March, the UK banking system is well capitalised and funded, and remains safe and sound.

The independent Financial Policy Committee of the Bank of England is responsible for identifying, monitoring and addressing systemic risks to financial stability. The FPC meets quarterly, following which a record of its discussion is published, and produces a bi-annual Financial Stability Report setting out its assessment of the risks facing the financial system and of the system's resilience. The Bank of England's latest stress test shows that the banking sector is resilient to outcomes for the economy that are much more severe than the Monetary Policy Committee's central forecast. This reflects the strong action taken by both the government and regulators to strengthen the resilience of the banking system with the major UK banks now reporting core capital ratios three times higher than before the 2008 global financial crisis.

5. Do smaller banks that serve strategic sectors need more active prudential regulation, given the Treasury's focus on their customers?

The PRA, as the expert, operationally-independent regulator, is responsible for setting these prudential standards and the supervision of UK banks.

The IMF has said that the UK 'operates a sound and transparent regulatory and supervisory framework for banks' and that the UK's 'effective prudential and supervisory structure is helping support the safety and soundness of the United Kingdom's banking... system'.¹

6. Why did the Government settle on HSBC as the rescuer of SVB UK? How many other potential bidders were there? What would you have done had there been no suitable bidder?

The sale process was led by the Bank of England. A number of potential purchasers for SVB UK emerged, following which the Bank facilitated the onward sale of SVB UK to HSBC. As mentioned, the Bank judged a sale to HSBC as the most appropriate action to achieve the resolution objectives in the developing circumstances.

The Bank is required to consult the Treasury before exercising its resolution powers.

HM Treasury and the other authorities naturally contingency plan for a range of outcomes in these circumstances, and the government is pleased that in this

¹ IMF United Kingdom: Financial Sector Assessment Program-Financial System Stability Assessment (February 2022)

instance a resolution was achieved which limited risks both to the customers of SVB UK and the taxpayer.

7. Why did HSBC require exemptions from the ringfencing regime as part of this resolution and how they will work? What does this mean for the prudential regulation of HSBC?

SVB UK has become a subsidiary of HSBC's ring-fenced bank. The ring-fencing regime provides a four year transition period for an entity acquired as part of a resolution process before it becomes subject to the ring-fencing requirements. As a result of this existing provision in legislation, SVB UK is not currently subject to the ring-fencing requirement. However, HSBC UK, SVB UK's parent company, remains subject to the ring-fencing regime.

In addition, to ensure the sale proceeded, the government used its powers under the Banking Act 2009 to broaden another existing exemption in ring-fencing legislation with regards to HSBC's purchase of SVB UK.

On Monday 13 March, I laid in both Houses of Parliament a statutory instrument to allow HSBC's ring-fenced bank to provide preferential intra-group lending to SVB UK. This exemption was crucial for the success of HSBC acquiring SVB UK. It ensured that HSBC's ring-fenced bank was able to provide liquidity support to its new subsidiary. This should facilitate the smooth operation of SVB UK going forward.

Separately, the government intends to lay in due course another statutory instrument to make further changes to the ring-fencing regime with regards to HSBC's purchase of SVB UK. This is to permit SVB UK to remain exempt from the ring-fencing rules, beyond the four year transition period, subject to conditions. This exemption was also crucial to the success of the sale as it ensures that SVB UK can remain a commercially viable stand-alone business as part of HSBC group. To be clear, HSBC itself remains subject to the ring-fencing regime.

8. Did the Treasury seek any assurances from HSBC on its approach to the UK tech industry? Was that a factor in HSBC's bid being successful?

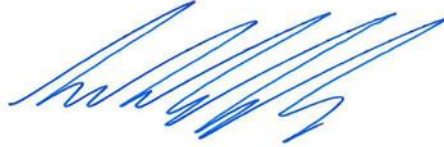
As set out above, the sale process was run independently by the Bank of England. The Bank judged that an onward sale of SVB UK to HSBC was the most appropriate action to deliver the resolution objectives in the developing circumstances. The sale has minimized disruption to the UK technology and life sciences sectors and limited risk to the taxpayer.

9. Are you concerned by reports that some tech firms were required by investors to place their deposits with SVB UK as a condition of investment?

I have read press reports that this was the case but have yet to see objective data on this matter.

I look forward to continuing to discuss these matters with the Committee in due course.

Kind regards,

A handwritten signature in blue ink, appearing to read 'Andrew Griffith', written in a cursive style.

ANDREW GRIFFITH MP