ECONOMIC SECRETARY TO THE TREASURY

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

The Lord Bridges of Headley MBE
Chair of the Economic Affairs Committee
House of Lords
London
SW1A 0PW

28 September 2023

Dear Lord Bridges,

Publication of the near-term ring-fencing reforms consultation and summary of responses to the Call for Evidence on aligning the ring-fencing and resolution regimes

I am writing to notify you that the government has today published a consultation and draft legislation on the near-term ring-fencing reforms, which the government first announced as part of the Edinburgh Reforms in December 2022.

This is a significant reform package that will improve outcomes for banks and their customers, increase competition, and strengthen the competitiveness of the UK banking sector. The proposed changes represent a necessary evolution of the ring-fencing regime to make it smarter, more flexible, and proportionate, whilst maintaining appropriate financial stability safeguards and minimising risks to public funds.

I appreciate the Committee's interest in the ring-fencing regime and would like to provide some context for our approach.

The near-term reforms broadly take forward the recommendations made by the statutory review of ring-fencing and proprietary trading chaired by Sir Keith Skeoch ('the Skeoch review') which published its findings in March 2022. The Skeoch review's final report included seven recommendations related to the ring-fencing regime. Six of these recommendations (the near-term recommendations) proposed alterations to the regime that the review Panel judged would improve the operation of the regime in a fashion that was beneficial to the banking industry and their customers, without undermining the UK's financial stability. Five of these were directed at HM Treasury and one at the Bank of England.

As part of the Edinburgh Reforms, the government announced its intention to consult on a series of near-term reforms to take these recommendations forward and also set out plans to increase the deposit threshold – the point at which banks become subject to the ring-fencing regime – from £25bn to £35bn. Today's publication delivers on these commitments and includes further measures, in particular to help facilitate investment by ring-fenced banks in UK SMEs.

Alongside recommendations to improve functionality of the ring-fencing regime, the Panel also recommended that HM Treasury should review the practicalities of how to align the ring-fencing and resolution regimes in the long term given they both seek to address the same issue of 'too big to fail'. In response, the government issued a call for evidence in March 2023 which closed in May. The Government has also published today a summary of responses to the Call for Evidence which summarises stakeholder views and outlines the government's intention to set out a policy response on the long-term future of the ring-fencing regime in the first half of 2024.

Kind regards,

Andrew Griffith MP