



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

The Rt Hon Baroness Kramer  
House of Lords  
SW1A 0PW

21 August 2024

Dear Baroness Kramer,

Thank you for your contribution to the Second Reading Debate of the Bank Resolution (Recapitalisation) Bill on Tuesday 30 July, and for your expression of support for the changes we are proposing. During the debate you raised the previous government's management of the failure of Silicon Valley Bank (SVB) UK and the impact of this on the ring-fencing regime, and requested I revert in writing. I am copying this letter to those who spoke in the debate and a copy will be deposited in the Library of the House.

As you know, following the failure of SVB UK the previous government took action to help facilitate its purchase by HSBC. It used its powers under the Banking Act 2009 to provide HSBC with an exemption to certain ring-fencing requirements relating to the transferred entity by laying two statutory instruments. My colleagues and I, at the time in Opposition, sought reassurances that under HSBC's ownership SVB would be able to continue to support early-stage tech and life sciences businesses in the UK. With these reassurances, the statutory instruments received cross-party support.

The first statutory instrument (SI 2023 no.319) amended the rules on intra-group lending to SVB UK, enabling HSBC to provide liquidity to SVB UK which would otherwise have had to be on arm's length terms, supporting the smooth operation of SVB UK. The second (SI 2023 No 694) provided an ongoing exemption for SVB UK from the ring-fencing regime beyond the existing four-year transition period set out in the ring-fencing regime, subject to conditions. Through the conditions, the previous government sought to limit the scope of the exemptions to what was needed to facilitate the sale of SVB UK and minimise risks to financial stability, while limiting any competitive distortion.

During the recent debate you asked if there was anything to prevent HSBC from transferring its existing business into SVB UK when this would otherwise not be permitted by the ring-fencing regime. Two of the conditions set out in the SIs place restrictions on this; HSBC can only transfer business into SVB UK or generate new business through SVB UK where this is 'permitted business', i.e., similar in nature to the business SVB UK undertook pre-resolution.

SVB UK's average core deposit total also must remain less than the limit specified in article 12(1)(a) of the Financial Services and Markets Act (FSMA) 2000 (Ring-fenced Bodies & Core Activities) Order 2014 (SI 2014 No.1960). I have been reassured that the PRA is in a position to ensure these conditions are met.

You raised concerns during the debate that the approach taken by the previous government in the case of SVB UK may have set a precedent for future exemptions to the ring-fencing regime. There is no expectation that exemptions to the ring-fencing regime would be made in the event of a future resolution. In that event, HM Treasury would engage with the Bank of England to identify the best way to protect depositors, the taxpayer and financial stability in the specific circumstances, noting that when banks fail decisions are often made under conditions of extreme urgency and authorities face trade-offs in the pursuit of the public interest. Sam Woods, Deputy Governor for Prudential Regulation at the Bank of England, conveyed a similar sentiment when he addressed the Treasury Select Committee regarding SVB UK on 28 March 2023.

The government is committed to improving the resolution regime to ensure we have the right powers and plans in place to achieve the best possible outcome when banks fail. The changes proposed in the Bill will help to ensure that in future the government has a broader range of options available when faced with the resolution of small banks.

Thank you once again for your questions. I trust I have answered them thoroughly although please feel free to write to me if there are related matters I have not addressed.

Yours,

A handwritten signature in black ink, appearing to be 'S. Livermore', with a horizontal line extending to the right.

**Lord Livermore**

**FINANCIAL SECRETARY TO THE TREASURY**