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

Baroness Vere
House of Lords
London
SW1A 0PW

19 September 2024

Dear Baroness Vere,

Thank you for your contribution to the Committee Stage debate of the Bank Resolution (Recapitalisation) Bill on 5 and 10 September 2024. During those debates, you raised questions on which I said I would write to you. Alongside this letter, I have attached an annex that sets out the worked examples that you and others requested at Committee Stage, which has been developed with the assistance of the Bank of England

First, you asked about the number of firms on the MREL glide path. There are three firms that have begun and remain in the transition to end-state MREL above their minimum capital requirements, out of a population of 17 firms with a resolution entity incorporated in the UK for which an MREL above minimum capital requirements has been communicated. More information about the external MRELs that these firms are set is available on the Bank of England's website.[1] You also asked whether the results of the 2024 Resolvability Assessment Framework had been published. They were published on 6 August and are available on the Bank of England's website.[2]

In relation to your question relating to concern about the outcome of the Resolvability Assessment Framework, individual firms' resolvability requirements and the manner in which they meet those requirements are a matter for the Bank of England and it would not be appropriate for HM Treasury to comment on individual firm results. However, the Bank of England has made clear that the Resolvability Assessment Framework publication and findings provide further reassurance that any major UK bank could enter resolution

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[1] https://www.bankofengland.co.uk/financial-stability/resolution/mrels-2024
[2] https://www.bankofengland.co.uk/financial-stability/resolution/resolvability-assessment-framework/resovability-assessment-of-major-uk-banks-2024

safely if needed. Any areas for further enhancement or shortcomings that the Bank has identified do not alter its confidence in the ability of these firms to be resolved.

While the Bank has found that the major UK banks have continued to make significant progress in improving their preparations for resolution, it has identified areas of improvement for all the major banks and, in line with firms being responsible for their own resolvability, expects that ahead of the next Resolvability Assessment Framework they will work to remediate those issues. In the next Resolvability Assessment Framework, the Bank expects the firms to evidence how they have improved their capabilities to achieve the resolvability outcomes assessed under the Framework. The Bank of England's efforts to improve the resolvability of firms are underpinned by the PRA's supervisory rules, the Bank's resolution policies and the legal framework set out in the Banking Act 2009 (as amended).

As set out in the government's consultation response, the UK has a robust resolution framework which ensures that firms can fail safely. The effectiveness of the UK's resolution framework was demonstrated last year when the Bank of England facilitated the sale of SVB UK to HSBC UK.

You raised the issue of multiple firm failures, and whether the mechanism could be used in that scenario and if it was, how firms may be prioritised. As noted during debate, in principle the mechanism can be used on multiple firms at one time. The amount to which the banking sector could be levied in any year would still be subject to the PRA's assessment of affordability and, to the extent the necessary funds went beyond this level, the FSCS would be able to request to draw on the National Loans Fund. This means there is scope for any costs to be spread across future years, if justified on grounds of affordability.

The government's cost-benefit analysis sets out some possible implications for the mechanism in the case of multiple firm failures, while noting this outcome would be highly case-specific. More broadly, that analysis found that it would usually be expected that the draw on the new mechanism would result in a lower cost relative to insolvency in terms of levies on industry.

Ultimately in the case of multiple firm failures, the use of the mechanism in each case would continue to be subject to the resolution conditions assessment and advancing the Special Resolution Objectives in the public interest. Any resolution which would be likely to have implications for public funds would be subject to agreement by the Chancellor.

You asked whether the government is content for the set of firms that contribute to the costs of the new mechanism to be wider than the set for which it is intended to be used. A broad-based levy will help ensure that the mechanism remains affordable for the sector. While this does mean that larger banks would contribute to the costs while not being the

intended target, this is already the case when it comes to small bank failures, as larger banks could be required to contribute to paying out covered depositors if a small bank were to enter insolvency, despite not being expected to enter insolvency themselves.

Finally, you asked whether FSCS resources would come under pressure if two or more banks were to be placed into resolution and insolvency and how the FSCS's resources would be prioritised in that situation. The government is confident that it would not be necessary for the FSCS to prioritise funding for either resolution or insolvency. The FSCS is not currently required to prioritise funding in the event of multiple firms being placed into insolvency. This is because the funding system in place is designed to ensure that the FSCS can access the financial resources it needs for both cases. The decision to place a firm into resolution or insolvency would be taken on a case-by-case basis, reflecting the specifics of the case and with regard to the public interest.

As a reminder, when faced with the costs of a resolution and/or an insolvency, the FSCS would initially use its own resources which can provide up to £1.5 billion. It would then levy the sector to recoup this money. If the FSCS is required to provide more than it can source through commercial borrowing it can request to borrow from the National Loans Fund via HM Treasury. It would then levy the sector over the subsequent years to repay HM Treasury for any loan from the National Loans Fund. Any levies to repay lending would also continue to be subject to the PRA's assessment of affordability. This is the case for an insolvency and the new recapitalisation mechanism.

I hope this explanation is helpful, and I have endeavoured to ensure your questions have been answered thoroughly. I would of course be happy to meet with you for further discussion on this ahead of Report Stage, and will ask my office to arrange this. I look forward to your continued engagement on the Bill.

I am copying this letter to those who spoke in the debates and a copy will be deposited in the Library of the House. I also attach the letter I sent to Lord Eatwell in response to the questions he raised following Second Reading. A copy of this will also be deposited in the Library of the House.

Yours sincerely,

Lord Livermore

FINANCIAL SECRETARY TO THE TREASURY