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Dear Syed,

FINANCIAL SERVICES AND MARKETS BILL: MATTERS RAISED AT SECOND READING

Thank you for your contributions during the Second Reading debate on the Financial Services and Markets Bill on Monday 8 June. In my closing speech, I committed to respond in writing on a number of matters raised in the debate which I was unable to cover in the available time.

Ring fencing and impacts on bank resolution regime.

You asked about the "unintended consequences" referred to in the Explanatory Notes. These reflect findings from the independent Skeoch Review, published in 2022, which found that some aspects of the ring-fencing regime are overly rigid and can give rise to inefficiencies and unnecessary complexity in how firms operate – for example, geographic restrictions had limited banks' ability to serve UK customers operating internationally. In response, the Government implemented the "Smarter Ring-fencing" reforms in 2025, taking forward a number of the Skeoch Review's recommendations to improve the regime's proportionality and flexibility.

You also asked about the impact of the reforms on the bank resolution regime. The Skeoch Review noted that ring-fencing now operates alongside a significantly developed bank resolution regime, which is designed to manage failure across the whole banking group. However, both regimes seek to address risks associated with bank failure, and the current framework can result in duplication, as the PRA is required to maintain ring-fencing rules even where similar risks are already addressed through resolution planning and related prudential requirements. The Skeoch Review concluded that while ring-fencing should be retained, it should over time be better aligned with the resolution framework. The "Smarter Ring-fencing" reforms addressed several of the issues identified by the Skeoch Review but could not resolve this underlying issue of alignment, as it stems from requirements set in primary legislation.

The Bill therefore addresses this by clarifying that the PRA need not make ring-fencing rules where the relevant outcomes are already delivered through that wider framework. It also updates the statutory purposes from a focus on "insolvency" to the broader concept of "failure", giving the PRA more flexibility when setting its rules and reflecting the broader range of approaches for managing banks in distress.

Microfinance, CDFIs and SME access to finance.

You asked about the government's agenda on microfinance and community development financial institutions (CDFIs) and what the government is doing to create space for organisations to grow and widen access to credit and advice.

The Government is committed to ensuring CDFIs can provide credit and advice to consumers and businesses.

In December 2024, the British Business Bank and the Government launched the Community Enable Funding (CEF) programme, which aims to increase CDFI and social lender funding to boost lending to underserved smaller businesses, particularly those led by ethnic minorities and women, and those in deprived areas who may be excluded from mainstream finance. The CEF programme is expected to support up to £150m of lending over two years, an initiative that has been strongly welcomed by the sector. In addition, a CDFI Taskforce was established in February this year – a compelling partnership between Government, major financial institutions, and CDFIs to strengthen capacity, capability, and support growth across the sector.

The Government recognises the vital role CDFIs play in supporting underserved but viable borrowers. We will continue to support the development of this area of the market and CDFIs' role in supporting people and businesses right across the UK.

Credit union common bond

Finally, you asked whether the Government had considered abolishing the common bond altogether and if not, what concerns were preventing it. The common bond is an important feature of the credit union model in Great Britain and is fundamental to what makes credit unions different. Our reforms are therefore designed to support growth while staying true to the movement's roots.

I am grateful to you for raising these important issues in the debate. I look forward to continuing to discuss them during the passage of the Bill.

Please be aware that I will be sharing this letter with all Peers that took part in the Second Reading debate. I am also placing a copy of this letter in the Library of the House.

With best wishes,

Lord Stockwood of Great Grimsby and Cleethorpes
Minister for Investment
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