

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

DRAFT FINANCIAL SERVICES AND MARKETS
ACT 2000 (RING-FENCED BODIES AND CORE
ACTIVITIES) (AMENDMENT) ORDER 2018

Monday 16 July 2018

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The Committee consisted of the following Members:

Chair: PHILIP DAVIES

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| † Caulfield, Maria (<i>Lewes</i>) (Con) | † Reynolds, Jonathan (<i>Stalybridge and Hyde</i>) (Lab/
Co-op) |
| † Clark, Colin (<i>Gordon</i>) (Con) | † Rutley, David (<i>Lord Commissioner of Her Majesty's
Treasury</i>) |
| † Clwyd, Ann (<i>Cynon Valley</i>) (Lab) | † Shapps, Grant (<i>Welwyn Hatfield</i>) (Con) |
| Coffey, Ann (<i>Stockport</i>) (Lab) | Sheerman, Mr Barry (<i>Huddersfield</i>) (Lab/Co-op) |
| † Double, Steve (<i>St Austell and Newquay</i>) (Con) | † Smith, Jeff (<i>Manchester, Withington</i>) (Lab) |
| † Glen, John (<i>Economic Secretary to the Treasury</i>) | † Thewliss, Alison (<i>Glasgow Central</i>) (SNP) |
| † Johnson, Dr Caroline (<i>Sleaford and North
Hykeham</i>) (Con) | † Walker, Thelma (<i>Colne Valley</i>) (Lab) |
| † Lefroy, Jeremy (<i>Stafford</i>) (Con) | Sarah Rees, <i>Committee Clerk</i> |
| † McFadden, Mr Pat (<i>Wolverhampton South East</i>)
(Lab) | † attended the Committee |
| † Prisk, Mr Mark (<i>Hertford and Stortford</i>) (Con) | |

First Delegated Legislation Committee

Monday 16 July 2018

[PHILIP DAVIES *in the Chair*]

Draft Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) (Amendment) Order 2018

4.30 pm

The Economic Secretary to the Treasury (John Glen): I beg to move,

That the Committee has considered the draft Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) (Amendment) Order 2018.

It is a pleasure to serve under your chairmanship, Mr Davies.

From 1 January 2019, the ring-fencing regime will require the structural separation of core retail banking from investment banking for UK banks with retail deposits of more than £25 billion. Ring-fencing was the central recommendation of the Independent Commission on Banking, chaired by Sir John Vickers, which the Government accepted and legislated for via the Financial Services (Banking Reform) Act 2013. It will support financial stability by insulating retail ring-fenced banks' core services, whose continuous provision is essential to the economy—retail and small business deposits and payment services—from shocks originating elsewhere in the global financial system. It means that banks that provide those essential services become simpler and more resolvable, so core services can keep running even if a ring-fenced bank or its group fails.

As well as ensuring that UK taxpayers are not on the hook for bank failures, ring-fencing should mean fewer and less severe financial crises in future, which will benefit the whole economy. Details of the regime are set out in secondary legislation passed in 2014. As part of restructuring to comply with the ring-fencing regime, banking groups may be required to move some accounts from one legal entity to another—for example, they may need to move a retail depositor's account into a new ring-fenced bank. However, some of the holders of those bank accounts are subject to financial sanctions that prohibit the movement of any funds that said account holders own, hold or control. The conflict with financial sanctions regimes means that at present some banking groups are unable to comply fully with the ring-fencing legislation.

The order resolves the otherwise conflicting requirements between a ring-fencing regime and financial sanction regimes by amending the Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014. It amends the definition of a "core deposit" so that accounts whose account holders are or have been subject to financial sanctions, as defined in section 143(4) of the Policing and Crime Act 2017, at any time in the past six months, are no longer included in the definition. That means that banking groups will not be required to move retail accounts whose holders are

subject to financial sanctions into ring-fenced banks. Banking groups will have six months from the removal of sanctions to remove retail accounts of those account holders previously subject to sanctions inside the ring fence.

The order will ensure that banking groups that cannot otherwise comply fully with the ring-fencing regime owing to sanctions legislation are not deemed non-compliant under the ring-fencing legislation. The amendment does not alter the location and height of the ring fence and nor does it alter the timetable for ring-fencing: banks in scope must be ring-fenced by 1 January 2019. Together with the Prudential Regulation Authority and the Financial Conduct Authority, we are monitoring their progress closely.

4.34 pm

Jonathan Reynolds (Stalybridge and Hyde) (Lab/Co-op): It is a pleasure to see you in the Chair, Mr Davies.

As we approach the 10th anniversary of the financial crisis, this order is a timely reminder that the regulatory effort to ensure that we have a safer, more robust banking system is still a work in progress. Creating safeguards to prevent a repeat of the events of 2008 are of the highest priority, given the devastating impact of that crisis on people's lives and the wider British economy, the legacy of which is still felt by many families today.

Few would disagree that there is still significant work to be done to rebuild trust in the banking sector and to create a framework of institutions that serve both customers and market participants fairly and effectively. Ring-fencing is a central part of that project. Given its scale and complexity, it is perhaps understandable that areas have arisen during the implementation phase that require further amendments to the statute book. Banks should clearly not be put in the position where it seems that there is a conflict between complying with the letter of the law on ring-fencing and with the rules on financial sanctions, so the Opposition support the measure.

Significant sums of money may be involved. According to the Government's written statement in February 2018, up to £1.4 billion flowed through the UK in breach of financial sanctions in 2017. Worryingly, that figure is a correction to a previous parliamentary statement that wildly underestimated the figure at just £117 million. Given the geopolitical environment, which the Minister knows only too well from events in his constituency, the Government must do better to instil confidence that they can clamp down on dirty money coming into our financial system.

I have two questions for the Minister about the order. First, it dictates that banks will have up to six months to move accounts over after sanctions have been lifted. Can he shed some light on how that timeframe was decided on, as it seems rather generous? Secondly, the explanatory memorandum states that the Treasury will consult with affected banks, in tandem with the regulators, on their implementation plans. Can the Minister provide further information about how the order will be monitored for compliance purposes, to ensure that the affected banks have moved accounts in the allotted time?

4.36 pm

Alison Thewliss (Glasgow Central) (SNP): It is a pleasure to serve under your chairmanship, Mr Davies. The SNP cautiously welcomes the order, but feels that it

could go further. As the powers to tackle tax evasion and avoidance largely lie here, we do not feel that the UK Government are being proactive enough to gather those funds into the public purse. As the hon. Member for Stalybridge and Hyde said, the funds represent a significant amount of money that all our constituents should see the benefit of.

It is positive that banks will be able to effectively comply with the ring-fencing regime and provide crucial regulatory protection for consumers, but we are concerned that the UK Government need to improve the sanctions regime. That cannot wait until 2021 when public services are being cut. Why will the Minister wait until 2021, which is quite some time from now, to review the measure? We may learn lessons more quickly than that. It would make sense to review it and ensure that we are learning, rather than to wait and pick up the pieces afterwards.

In the context of the legislation, which has territorial extent in Scotland, what consultation has been done with the Scottish Government? Our robust anti-avoidance rules on devolved taxes where we have control are among the toughest in the world. We would like the UK Government to follow our lead and crack down on some of the current tax avoidance. We are serious about doing that in the areas that we control, and we would like there to be a consistent approach that uses best practice.

Although the measure is a welcome step in the right direction, the UK Government must take more action and accept the criticisms of the sanctions regime that were raised some months ago in the Committee of the Sanctions and Anti-Money Laundering Act 2018—a much colder room than this one. They should also tackle dirty money as well as tax avoidance and evasion, because huge sums of money are still being laundered

through Scottish limited partnerships. I appreciate that that consultation closes on 23 July, but it would be useful to hear anything that the Minister can tell us about when action will be taken following the conclusion of that review.

4.38 pm

John Glen: I am grateful for the opportunity to discuss the order, and for the points made by the hon. Members for Stalybridge and Hyde and for Glasgow Central. We have engaged with the Prudential Regulation Authority and the Financial Conduct Authority on the wording and the extent of the order, which proposes to amend the ring-fencing legislation, and feedback has been positive.

The six-month timeframe was chosen to ensure that banks have enough time to make the necessary transfer; it was the result of a practical conversation with the regulators. The hon. Member for Glasgow Central asked why we are waiting until 2021 to review the instrument. That leaves enough time for the PRA and the Treasury to identify potential issues and consult on any changes.

Some wider points were raised when we were in Committee in this room previously. I acknowledge that there are ongoing concerns about various aspects of the sanctions and anti-money-laundering regime. They are without the scope of this conversation, but I am happy to address any specific concerns by letter; that would be more appropriate than to try to answer them conclusively now. I hope I have satisfied Opposition Members, and I commend the order to the Committee.

Question put and agreed to.

4.40 pm

Committee rose.

