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By email to; retailbanking@cma.gsi.gov.uk

17 March 2016

Dear Alasdair,

We are writing in response to the 26 February CMA consultation paper on the corporation tax surcharge and bank levy.

Fundamentally, taxation should not be looked at in isolation from other policy settings. As we have consistently stated, as challenger banks we are willing to be taxed on the same basis as the large banks, provided that other policy settings also provide a level playing field. The CMA's current suite of proposed remedies will not achieve this, as they do not materially address the key issues around access to payment systems, proportionate regulation, and in particular capital and the cost of funding. As we have set out in previous correspondence, the changes to the tax regime will compound the existing competitive disadvantages that smaller banks face, hampering their ability to retain earnings and fund expansion. Similarly, the reduced appeal to investors caused by the tax surcharge will inhibit smaller banks' ability to grow.

Taken as a whole, the taxation regime provided some limited counterbalancing of the larger banks' competitive advantages, including the funding advantage derived from the implicit government guarantee. As the CMA acknowledges, this counterbalancing will be significantly reduced by the changes to the tax regime.

We note the CMA's point that taxation policy and objectives are ultimately a question for government and Parliament. We also note the CMA's endorsement of the HM Treasury commitment to keep the competitive impacts of the tax system under review. However, we are disappointed that the CMA is not willing to take a more robust position against a policy change that the CMA acknowledges will reduce the ability of small UK banks to compete.

We would also like to draw to your attention a 9 March paper by the Sheffield Political Economy Research Institute.¹ It highlights that the cost of the surcharge for smaller banks will be greater than for bigger banks as a proportion of total liabilities, undermining competition, and suggests that HM Government needs to clarify the purpose of the bank tax regime.

Finally, we observe that there were no material improvements in the March 16 Budget.

¹ 'The UK banking sector and the corporation tax surcharge', Sheffield Political Economy Research Institute, available at: <http://speri.dept.shef.ac.uk/2016/03/09/the-uk-banking-sector-and-the-corporation-tax-surcharge-new-speri-brief/>

In light of the above, we submit that the CMA should:

- Go beyond its current draft remedies and make concrete proposals addressing the core underlying impediments to competition around capital, access to funding, access to payment systems and proportionate regulation.
- Urge HM Treasury to establish and follow a clear timeframe for completing a review of the competition impacts of the tax system.

If you have any questions, we would be happy to assist.

Yours sincerely,

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CEO, Charter Savings Bank

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CEO, Close Brothers

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