

## RETAIL BANKING MARKET INVESTIGATION

### Notice of addendum to provisional findings made under Rule 11.3 of the Competition and Markets Authority Rules of Procedure (CMA17)

1. On 6 November 2014, the Competition and Markets Authority (CMA), in exercise of its powers under sections 131 and 133 of the Enterprise Act 2002 (EA02) made a reference to the chair of the CMA for an investigation into the supply of retail banking services<sup>1</sup> to personal current account (PCA) customers and to small and medium-sized enterprises (SMEs) in the UK.

#### Provisional findings

2. On 22 October 2015, the CMA inquiry group (the Group) appointed to consider this reference provisionally found, pursuant to section 134(1) of EA02, that there are features of the relevant markets, which alone or in combination, prevent, restrict or distort competition in the supply of PCAs in the UK and in the supply of certain retail banking services to SMEs in the UK such that there is an adverse effect on competition (AEC) within the meaning of section 134(2) of EA02. The Group's reasons are set out in full in the provisional findings report.
3. In its provisional findings report, the Group identified, among other things, that there are significant disparities in the risk weights for credit risk on residential mortgages applied to different banks depending on the approach they are authorised to adopt to calculate their risk weight under the capital requirements regime. These disparities, the Group provisionally found, have the potential to distort competition and to act as a barrier to entry and expansion as some banks have to hold significantly more capital on certain loan-to-value (LTV) residential mortgages than other banks. The Group said it would undertake further analysis to understand the impact of the regulatory capital requirements regime on competition between banks in the provision of PCAs, business current accounts (BCAs) and lending to SMEs and more widely across banks' retail banking businesses.

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<sup>1</sup> As defined in the [terms of reference](#). All references in this notice to retail banking services should be read accordingly.

4. On the basis of the analysis undertaken, the Group has provisionally found that the capital requirements regime places banks on the standardised approach to calculating risk weights at a competitive disadvantage in lower LTV mortgages than banks on the internal ratings-based approach. The majority of the Group considered that further evidence was needed in order to be sufficiently confident about the scale of the impact on banks' costs and returns of the competitive disadvantage in lower LTV mortgages to be a barrier to entry and/or expansion in retail banking more generally including the supply of PCAs and of SME banking services (or indeed in other retail banking markets). The Group, however, does not intend to undertake further analysis to determine whether the disadvantage in lower LTV mortgages gives rise to a barrier to entry and/or expansion in retail banking.
5. The Group's reasons are set out in full in the addendum to the provisional findings report (see Notes below).

### **The next steps**

6. The Group now invites interested parties to submit reasons in writing as to why the addendum to the provisional findings should not become final (or, as the case may be, should be varied).
7. These reasons should be received by the Group no later than **5pm on Friday 6 May 2016** unless otherwise agreed with any party.
8. Unless a different date is agreed with any party, the Group will have regard to any such reasons provided by this date in making its final decisions in this investigation.

Alasdair Smith  
*Group Chairman*  
15 April 2016

*Note:* A copy of this notice and the addendum to the provisional findings report will be placed on the CMA website on **15 April 2016**. The published version of the addendum to the provisional findings report will not contain any information which the Group considers should be excluded from the report, having regard to the three considerations set out in section [244](#) of EA02. These omissions are indicated by [✂].

Comments should be made by email to [retailbanking@cma.gsi.gov.uk](mailto:retailbanking@cma.gsi.gov.uk) or in writing to:

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