

Professor Sir John Vickers
Warden
All Souls College
Oxford OX1 4AL

From: Alasdair Smith
Inquiry Chair, Retail
Banking Market
Investigation

8 July 2016

Dear John

Retail Banking Market Investigation

Thank you for your letter dated 27 May reiterating your competition concerns arising from the Bank of England's (BoE) proposed framework for the systemic risk buffer for ring-fenced banks.

The BoE has considered whether its proposed framework could create disincentives for large banks to compete in particular at or near the thresholds where the systemic risk buffer will apply or increase (http://www.bankofengland.co.uk/financialstability/Documents/fpc/srbf_cp260516.pdf). We note that the BoE agrees with you that there is a potential for any step-system of the type proposed for the systemic risk buffer to give rise to competitive distortions depending on where the relevant thresholds are set. The BoE considers that other approaches such as a flat rate system may give rise to other distortions. We also note that the PRA agrees that an income tax style approach might be better but that the current regulations preclude such an approach

In light of the above, and given the limited time-frame of this market investigation, we do not think there is much added value in us undertaking any detailed empirical analysis on the BoE proposals which would require us to seek extensive data from the banks in order to test empirically the effect of the proposed framework in particular on competition between ring-fenced banks.

We therefore remain of the view that the BoE is best placed to continue to lead on the issues that you have raised. The CMA will continue to liaise with the BoE as well

as other relevant authorities in this area beyond the life of this investigation given the potential for the prudential regulation of banks to impact on competition in retail banking in a range of areas.

Best regards

Alasdair Smith
Inquiry Chair