



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

21 April 2017

The Rt Hon Andrew Tyrie MP  
Chairman  
Treasury Select Committee  
14 Tothill Street  
London  
SW1H 9NB

Dear Andrew

Royal Bank of Scotland's State aid commitments

Thank you for your letter of 11 April 2017 about the proposed package of remedies to allow RBS to deliver on its State aid commitment.

We share the objective of improving competition in the SME banking sector, and I know the Treasury Select Committee has been conducting an inquiry into the recent CMA report on this issue.

On the particular issue of RBS' State aid commitments, however, it is important to understand the particular circumstances that led to the development of the proposed remedies.

The alternative package we have proposed is designed to have an equivalent pro-competition impact to the failed Williams & Glyn divestment, but with greater speed and certainty of delivery. At the same time, the proposal needs to be proportionate as regards its impact on RBS. In practice, that means the package is by necessity limited in scope. Within those parameters, however, we have designed it to offer a comprehensive set of pro-competition measures.

As you may have seen, the Commission has now published an opening decision, which gives much fuller details of the alternative package. It is available at [http://ec.europa.eu/competition/state\\_aid/cases/269022/269022\\_1889564\\_8\\_2.pdf](http://ec.europa.eu/competition/state_aid/cases/269022/269022_1889564_8_2.pdf). I hope that this addresses some of the issues you identify in your letter, including those about the definition and use of the proposed funds, the eligibility criteria for challenger banks, and the incentives for switching accounts.

I also hope that these additional details are helpful in setting out how the measures in the package will, together, have a considerable impact on competition in the SME banking sector. The package aims to strengthen multiple competitors by removing barriers to the

development of new products and the switching of business customers, as well as encouraging new suppliers and products. The Incentivised Switching Scheme alone is capable of delivering a further 2% reduction in RBS's market share.

Now that further details are in the public domain, we look forward to receiving feedback from interested parties, via our market testing process, to help us refine the proposal and ensure it works well in practice. Separately, the Commission has invited interested parties to submit views on particular aspects of the package. These processes are designed to ensure that the package works as effectively as possible.

In addition, I would stress that this package is just one part of a wider strategy to deliver our vision of placing competition at the heart of UK financial services.

As well as establishing competition objectives for both regulators, we have substantially lowered barriers to entry to create a regulatory environment where challengers can more easily enter, expand and compete with incumbents, including through the New Bank Start-up Unit set up by the PRA and FCA. The PRA has also recently published two consultations on capital requirements for smaller banks and the use of internal models, which we believe stand to help smaller banks comply with their regulatory requirements.

It remains our objective to continue to drive further progress in this important area.

A handwritten signature in blue ink, appearing to read 'Philip Hammond', written in a cursive style.

PHILIP HAMMOND