



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

29 September 2017

The Rt Hon Nicky Morgan MP  
Treasury Committee  
House of Commons  
London  
SW1A 0AA

Dear Nicky

Upcoming changes to the Treasury's and Bank's Memorandum of Understanding on Resolution Planning and Financial Crisis Management.

The Bank of England will shortly re-publish their resolution guidance document, *Approaches to Resolution*, and accompanying changes to the Treasury's and Bank's Memorandum of Understanding on Resolution Planning and Financial Crisis Management.

The guidance document explains the key features of the UK's resolution regime and how the Bank, as UK resolution authority, would be likely to implement a resolution. As part of updating *Approaches to Resolution*, the Bank will set out its approach to providing liquidity in resolution. Ensuring that a firm in resolution continues to have sufficient liquidity to meet its obligations is an essential part of an effective resolution regime.

In the first instance, liquidity would be expected to come from the firm's own resources. A recapitalised firm in resolution may, however, need temporary liquidity support where the firm's own resources are temporarily insufficient and access to private sector funding is disrupted. The Bank has therefore put in place a flexible approach for the provision of liquidity, the Resolution Liquidity Framework, to support the group resolution strategy. The Bank is already able to provide temporary liquidity support to a firm in resolution, but the Resolution Liquidity Framework clarifies and formalises this arrangement.

This framework provides the Bank of England with the tools to lend to banks, building societies or investment firms which are subject to the UK's special resolution regime, where the entity or its holding company is in a Bank of England led resolution. The protection of public money within this framework is absolute. The Resolution Liquidity Framework will be within the overall governance framework established in the Memorandum of Understanding on Resolution Planning and Financial Crisis Management, which reflects the Chancellor's and the Treasury's sole responsibility for any decision on whether and how to use public funds.

As a result, the Memorandum of Understanding has been updated to reflect the Resolution Liquidity Framework. The Memorandum of Understanding reflects the fact that the

Chancellor and the Treasury have sole responsibility for authorising liquidity support via the Resolution Liquidity Framework or any other public sector backstop funding mechanism.

As part of my commitment to keep Parliament informed of actions and policy developments, I will be laying the updated version of the Memorandum of Understanding that we have agreed with the Bank of England as soon as Parliament returns from recess.

I attach a copy of the updated Memorandum of Understanding to this letter for your information.

A handwritten signature in blue ink, appearing to read 'Philip Hammond', with a stylized flourish above the name.

PHILIP HAMMOND