



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

Rt Hon Nicky Morgan MP
Chair of the Treasury Select Committee
House of Commons
London
SW1A 0AA

2nd July 2018

Dear Nicky,

Service disruption at TSB

Following my appearance at the Treasury Select Committee on 27 June I committed to write to you on the TSB service disruption. I share your concerns about the serious problems faced by customers following the IT migration. The resilience of the finance sector and consumer protection are key priorities for this Government.

HM Treasury is the lead government department with responsibility for operational resilience in the finance sector. HM Treasury, the Bank of England, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) (collectively the 'Financial Authorities') work closely together to improve the resilience of the sector to operational risks and respond to any disruption. Action to respond to any incidents is coordinated by the Financial Authorities with wider government where appropriate, reflecting different remits and statutory objectives.

The response to the TSB service disruption is being managed through the Authorities' Response Framework (ARF), consisting of all the UK Financial Authorities, which is used for major operational incidents in the sector. When incidents affect the finance sector, any one of the Financial Authorities can invoke the ARF, but a lead authority is always designated to lead the response. The ability to speak with a single and unified voice enables the Financial Authorities to move much more swiftly and effectively than would otherwise be possible, and helps ensure clarity in communication with the affected firm.

The designation of a lead authority is also vital because it is the independent regulators who rightly have the powers to act. Which authority takes the lead depends on the nature of the incident in question. This flexibility means that the most appropriate Financial Authority is in the lead, and that financial stability concerns and consumer protection issues are treated equally and prioritised appropriately for the incident. The FCA, as the financial authority responsible for

consumer protection, is leading the response to the TSB disruption due to the clear impacts of this disruption on TSB's customers, many of whom were unable to access their accounts or make payments. HM Treasury is working closely with the FCA and PRA, making sure that we remain fully informed of progress and can be assured that all necessary action is being taken by the other Financial Authorities, consistent with their objectives.

The ARF has three response levels: 'monitor', 'engage' and 'escalate'. These response levels are managed by increasing levels of seniority in the Financial Authorities. The TSB disruption, as a sustained and complex incident, resulted in this framework being operated at its most serious level.

This has been demonstrated by the level and frequency of senior engagement with the firm across all the Financial Authorities, and by the FCA and PRA deploying technical teams on site. HM Treasury's Second Permanent Secretary spoke with TSB's CEO Paul Pester immediately following the start of the disruption on 24 April, and Andrew Bailey and Sam Woods have spoken regularly with Paul Pester and TSB's Chairman Richard Meddings.

The issues with TSB, and the response, were also discussed at a meeting between Paul Pester and HM Treasury's Director of Financial Services and Deputy Director for Banking and Credit on 10 May. Given the clear lead assigned to the FCA under the ARF and the active role being played by Andrew Bailey in delivering strong messages to TSB on behalf of all the Financial Authorities, there was no need for my direct involvement. I was of course kept in close touch with developments by my officials. I do however have plans to meet Paul Pester, and my office are in the process of finalising the date.

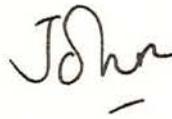
The FCA has announced that they will undertake an investigation into the disruption using statutory powers jointly with the PRA. We are supportive of this, as well as the Treasury Select Committee inquiry which is of course ongoing. Under the Financial Services and Markets Act 2000, we have given the FCA powers to act if a firm contravenes a requirement placed on them. The FCA's powers include public censure, financial penalties and the power to require restitution. For example, the FCA and PRA fined RBS a total of £56 million for a 2012 IT failure affecting 6.5 million customers.

Mr Elphicke asked about the suitability of Banco Sabadell as owners of TSB. As part of their change in control procedures the PRA and FCA consider the impact of a proposed change on a firm's ability to comply, and continue to comply, with prudential requirements. When and how Government can intervene in situations where there is a merger or takeover is prescribed in the Enterprise Act 2002. The Act limits Ministers' ability to intervene to instances where mergers

raise public interest considerations relating to the stability of the UK financial system, national security and media plurality.

We are supportive of the FCA's handling of this incident and believe the Financial Authorities are currently working together effectively. We will continue to work together closely until the incident is fully resolved and will continue to monitor the effectiveness of our operating structures and improve them where possible.

with very best regards

A handwritten signature in black ink, appearing to read 'John Glen', with a short horizontal line underneath the name.

JOHN GLEN MP
ECONOMIC SECRETARY TO THE TREASURY