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

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

27th March 2019

Dear Nicky,

INDEPENDENT REVIEW OF THE SUPERVISION OF THE CO-OPERATIVE BANK 2008-13

On 6 March last year I issued a direction using the powers conferred by sections 77(1) and (2) and 78(5) and (6) of the Financial Services Act 2012 (the Act), requiring the Prudential Regulation Authority (PRA) to undertake a review of the supervision of the Co-operative Bank between 2008 and 2013. This review was to be undertaken by an independent person and completed within a year.

As recommended by the Treasury Committee in its 2014 report on the Co-operative Bank’s failed bid for 632 Lloyds Bank branches, the so called “Verde” deal, I also required that the review should examine the record held of contacts between the seller, the bidders, the Treasury and other interested parties relating to the Verde bid.

The PRA appointed Mr Mark Zelmer, a former Deputy Superintendent of the Office of Superintendent of Financial Institutions, Canada, and previously a senior official at the Bank of Canada, to undertake the review. The PRA presented the completed Report setting out the findings of the review to HM Treasury on 4 March 2019. In accordance with Section 82(6) of the Act I am today laying the Report before Parliament. As required by Section 82(2) of the Act the Report will also be published on the Government website.
The Report makes detailed recommendations for the PRA and the Bank of England (BoE) relating to supervisory policy and practice. The PRA and the BoE welcome the Report’s recommendations and have today published a document responding to them. The Financial Conduct Authority (FCA) have also welcomed the Report.

In respect of the written records relating to the Verde deal Mr Zelmer finds that they show that there was a reasonably clear line between HM Treasury and the Financial Services Authority (FSA), in terms of the Treasury not encroaching upon the FSA’s financial stability remit or prudential supervision of the Co-operative Bank, or indeed the supervision of Lloyds Bank. He also finds that it is evident that the primary negotiation on terms was, as it should have been, between Lloyds Bank and the Co-operative Bank. He notes that HM Treasury was supportive of the deal both from a public policy perspective and as a shareholder of Lloyds.

While the Report contains no formal recommendations for HM Treasury, Mr Zelmer observes that in future relevant authorities should continue to engage early and regularly on firm-specific issues where necessary. The Treasury agrees with this observation, whilst ensuring that we continue to respect the independence of the regulators.

I would like to thank Mr Zelmer and his team for their work.

with very best regards

JOHN GLEN