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Mr Andrew Tyrie MP
House of Commons
London
SW1A 0AA

12 November 2013

Our Ref: 131031L

Thank you for your letter of 29 October in respect of the letter we sent to Greg Clark MP on tailored business loans, dated 25 February. I enclose copies of the letter of 25 February and a further letter on this issue sent on 9 May.

Yours sincerely

Martin Wheatley
Chief Executive



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Rt Hon Greg Clark MP
Financial secretary to the Treasury
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

9 May 2013

A handwritten signature in black ink, which appears to read 'Paul Craig', is positioned above the main body of text.

At our meeting on 22 April, I agreed to update on progress of the review of the sale of standalone interest rate hedging products (IRHPs) to non-sophisticated customers.

I am pleased to say that all banks have rolled out their full review process. A phased mailing inviting customers to opt-in to the review process and provide written testimony in regarding the original sale is under way and approximately 3,000 customers have so far been contacted. Cases are being considered by the banks and validated by the independent reviewers, and offers of redress have already been made. Customers in financial distress are being prioritized, and the Banks (excluding RBS due to volumes sold) expect to have completed the reviews before the end of 2013, with the majority of reviews being completed much earlier than this.

We also discussed products which have similar features to complex IRHPs but which are embedded within commercial loan agreements. As I stated in my letter of 25 February our view is that, as they are commercial loans, these products are not regulated. However, a customer who has taken out a loan with an 'embedded' IRHP may be faced with exactly the same repayment features and exactly the same (potentially large) break costs that the customer would have faced had the customer taken out a loan and a standalone IRHP.

The size of this issue is potentially significant. Data collected from Barclays, HSBC, Lloyds, National Australia Group and RBS shows that more than 60,000 of fixed rate

loans with mark-to-market break costs have been sold since 2001, significantly more than the 40,000 standalone IRHPs covered by our review.

We have concerns that firms may seek to take greater advantage of the limits to our regulatory remit in the future. There is a risk that banks may consider 'embedding' all their IRHPs into commercial loans in future, and thus avoid our regulatory oversight altogether. This could include 'embedding' some of the most complex IRHPs (e.g. Structured Collars), which the banks have agreed to stop marketing to retail customers.

Whilst this matter is one for Government to consider and lead on, we are happy to continue to engage with your colleagues in the HM Treasury to reach the right outcomes for small businesses about the issues and how they might be resolved.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Wheatley', with a stylized flourish at the end.

Martin Wheatley

Chief Executive

Financial Services Authority

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Rt Hon Greg Clark MP
Financial Secretary to the Treasury
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

25 February 2013

Dear Greg,

As you are aware, since March last year the FSA has been investigating sales of standalone interest rate hedging products (IRHPs) by the major UK banks to small businesses. We found serious failings with the sales of these products. In particular firms sold products that purported to help customers manage their exposure to interest rates but resulted in them not being able to take advantage of the fall in base rates and in some cases paying more.

The full review process for sales of IRHPs to non-sophisticated customers is now being conducted by the majority of the banks, with the aim of ensuring fair and reasonable redress where products have been mis-sold and resulted in customer detriment. However, our investigation has identified a further area of concern. There is a risk that banks may in future seek to create products which have similar features to complex IRHPs, but which are built into the loan agreements themselves and so would not normally be products that are regulated by the FSA.

We have seen evidence that this has already occurred. We have concerns that firms may seek to take greater advantage of the limits to our regulatory remit in the future. Building such features into the loans themselves enables banks to re-introduce what are often profitable product features from their perspective without rules in place to protect customers and no risk of regulatory sanction.

On the basis of the current proposals this will not be solved by the forthcoming extension of our remit to cover consumer credit under the FCA, since loans exceeding £25,000 for predominantly commercial purposes, and loans to companies, are excluded from the consumer credit regime.

I wanted to make you aware of this issue and would welcome an early discussion between representatives of HM Treasury and the FSA to discuss the potential for

customer detriment from this type of commercial loan and the action we may take to prevent this risk crystallising in the future.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Wheatley', with a stylized flourish at the end.

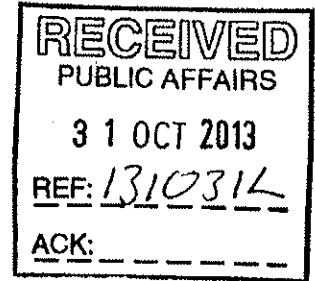
Martin Wheatley

Managing Director



Treasury Committee

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Martin Wheatley Esq
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29 October 2013

Tailored business loans

In an exchange with John Thurso at the Treasury Committee on 10 September, you undertook to send the Committee a copy of a letter about tailored business loans sent by you to Greg Clark MP, dated 25 February.

I have not yet received a copy of that letter. I would be grateful for it.

I will be placing this letter, and your response including the letter we have requested, in the public domain.

ANDREW TYRIE MP
CHAIRMAN OF THE TREASURY COMMITTEE

Nilmini Francis Godolphin Osborne

From: MPs Letters
Sent: 31 October 2013 17:27
To: 'tyriea@parliament.uk'
Subject: Acknowledgement of your letter to the FCA - Ref: 131031L

Dear Mr Tyrie

Re: Tailored Business Loans

Thank you for your letter of 29 October addressed to our Chief Executive Martin Wheatley on behalf of the Treasury Select Committee.

We aim to reply within 15 working days of receipt.

Yours sincerely

Nilmini Francis
On behalf of Marium Mahmood

Public Affairs, Communications & International Division



Financial Conduct Authority

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