HOUSE OF LORDS

Library Note

Financial Services (Banking Reform) Bill (HL Bill 38 of 2013–14)

The Financial Services (Banking Reform) Bill seeks to make a number of changes to the banking and financial services sector. The Bill builds on the recommendations of the Independent Commission on Banking (the Vickers Commission) and the Parliamentary Commission on Banking Standards and follows a series of Acts passed since the financial crisis of 2008, such as the Financial Services Act 2012. The Bill sets out a new structure for banking with a central element being the 'ring-fencing' of banks which separates retail deposit and lending from investment banking operations. This Library Note provides a précis of the report stage and third reading of the Bill in the House of Commons. The Note should be read in conjunction with two House of Commons Library Research Papers: *Financial Services (Banking Reform) Bill* (28 February 2013, RP 13/15), which contains more detailed information on the background to the Bill, and *Financial Services (Banking Reform) Bill: Committee Stage Report* (25 June 2013, RP 13/40), which summarises the second reading and committee stage in the House of Commons. House of Commons Library Standard Note, *LIBOR, Public Inquiries & FSA Disciplinary Powers* (2 May 2013, SN/BT/6376), also offers useful background commentary relevant to the Bill.

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1. Introduction

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2. Background

The Financial Services (Banking Reform) Bill is a carry-over bill from the 2012–13 parliamentary session. It was first introduced into the House of the Commons on 4 February 2013 (HC Bill 130), received its second reading on 11 March 2013 and was considered in a Public Bill Committee between 19 March and 16 April 2013 across 16 sittings. It was re-introduced into the Commons on 9 May 2013 and was considered on report on 8 and 9 July 2013, receiving its third reading on 9 July. The Bill was introduced into the Lords on 10 July 2013 and is due to have its second reading on 24 July 2013.

The Bill before the Lords (HL Bill 38) has 21 clauses and 2 schedules. The HM Treasury website states that the Bill will:

> introduce a 'ring-fence' around the deposits of people and small businesses, to separate the high street from the dealing floor and protect taxpayers when things go wrong;
>
> make sure the new Prudential Regulation Authority can hold banks to account for the way they separate their retail and investment activities, giving it powers to enforce the full separation of individual banks;
>
> give depositors, protected under the Financial Services Compensation Scheme, preference if a bank enters insolvency;
>
> give the Government power to ensure that banks are more able to absorb losses.

As noted above, the Bill builds on the recommendations of the Independent Commission on Banking (the Vickers Commission) and the Parliamentary Commission on Banking Standards. The Vickers Commission was established in June 2010 by the new Government and was tasked with reviewing and making recommendations on the structure of the banking system and on how it could be reformed to increase competition and maintain financial stability. The Commission published an issues paper in September 2010, an interim report in April 2011 and its final report in September 2011. The Government responded to the Commission's final report on the floor of the House of Commons on 19 December 2011 (HC *Hansard*, 19 December 2011, cols 1069–93) and also published a more detailed response (Cm 8252, December 2011). In June 2012 the Government published a White Paper, *Banking Reform: Delivering Stability and Supporting a Sustainable Economy* (Cm 8356), which set out a number of proposals following on from the Vickers Commission. Consultation on the White Paper closed in September 2012, and in October 2012 the Government published a draft Financial Services (Banking Reform) Bill, *Sound Banking: Delivering Reform* (Cm 8453). The recommendations of the Vickers Commission, the Government's response and draft Financial Services (Banking Reform) Bill were considered by the Joint Committee on the Financial Services Bill and by the Parliamentary Commission on Banking Standards (see below). The Joint Committee published its report in December 2011 (HL Paper 236) and the Government published its response in February 2012. For an overview of the background to the Vickers Review, its recommendations, the Government's response and the conclusions of the Joint Committee, see House of Commons Library Standard Note, *The Independent Commission on Banking: The Vickers Report and the Parliamentary Commission on Banking Standards* (3 January 2013, SN/BT/6171).

On 17 July 2012, the Parliamentary Commission on Banking Standards (PCBS), a joint parliamentary committee chaired by Andrew Tyrie MP, was appointed in the aftermath of the LIBOR scandal.[1] Its remit was to consider and report on: the professional standards and culture of the UK banking sector, taking account of regulatory and competition investigations into the LIBOR rate-setting process; lessons to be learned about corporate governance, transparency and conflicts of interest, and their implications for regulation and for government policy. The PCBS published five reports, the first four being: *Parliamentary Commission on Banking Standards: First Report* (21 December 2012, HL Paper 98); *Banking Reform—Towards the Right Structure: Second Report* (11 March 2013, HL Paper 126); *Proprietary Trading: Third Report* (5 March 2013, HL Paper 138); and *'An Accident Waiting to Happen'—The Failure of HBOS: Fourth Report* (5 April 2013, HL Paper 144). The Government responded to the first report from the PCBS in February 2013: *Banking Reform: A New Structure for Stability and Growth* (Cm 8545). On 19 June 2013, the PCBS released its fifth and final report, *Changing Banking for Good* (HL Paper 27). The report focused on individual accountability, corporate governance, competition and long-term financial stability. The Government issued its response (Cm 8661) on 8 July 2013, the same day as the Financial Services (Banking Reform) Bill was considered at report in the Commons. The content of the final report from the PCBS and the Government's response was the focus of much debate while the Bill was considered at report and at third reading.

3. Commons Report Stage

As noted above, the Bill was considered on report on 8 and 9 July 2013.

On day one of report, the Financial Secretary to the Treasury, Greg Clark, stated that the Government would move amendments in the Lords in response to the final report of the Parliamentary Commission on Banking Standards (PCBS), which was published on 19 June 2013 and to which the Government replied on 8 July 2013. He stated:

> I can confirm today that the Government will strengthen individual accountability by introducing a tough new regime that is recommended to cover the behaviour of senior bank staff; introducing new rules to promote higher standards for all bank staff;

[1] The Membership of the Parliamentary Commission was: Andrew Tyrie MP (Chairman); the Archbishop of Canterbury; Mark Garnier MP; Baroness Kramer; Lord Lawson of Blaby; Andrew Love MP; Pat McFadden MP; Lord McFall of Alcluith; John Thurso MP; Lord Turnbull.

> introducing a criminal offence for reckless misconduct by senior bankers—those found guilty could face a jail sentence; working with the regulators to implement the commission's proposals on pay, specifically to allow bonuses to be deferred for up to 10 years and enable 100 percent clawback of bonuses where banks receive state aid; and reversing the burden of proof so that senior staff are held accountable for regulatory breaches within their areas of responsibility. We will also ask the regulators to implement the commission's key recommendations on corporate governance. That will ensure that firms have to have the correct systems in place to identify risks and maintain standards on ethics and culture.
>
> We will support competition in the banking sector by providing the Prudential Regulation Authority with what the commission asked for, which was a secondary competition objective to strengthen its role in ensuring that we have banking markets that benefit from the vigorous competition that delivers good outcomes for consumers. That will be in addition to the Financial Conduct Authority's existing competition objective. In addition to introducing seven-day account switching later this year, the Government will ask the new payments regulator, once established, urgently to examine account portability and whether the big banks should give up ownership of the payment systems. The Government have also implemented the commission's recommendation to conduct a review to look into the case for splitting RBS into a good bank and a bad bank containing its risky assets.
>
> (HC *Hansard*, 8 July 2013, cols 58–9)

Chris Leslie (Labour), Shadow Financial Secretary to the Treasury, criticised the Government for not being quicker in its response to the PCBS's final report: "Why on earth are we wasting this Commons consideration of the Bill in Committee and on Report when he could not get his act together either to table amendments or to get a response together in time for us to properly use our time on Report?" (col 60). Later he suggested that all the detail emanating from the PCBS recommendations would be debated in the Lords (col 70).

Andrew Love (Labour/Co-op), a member of the PCBS, said that though there were eminent members of the PCBS in the Lords who would do a "magnificent job" of scrutinising the Bill, it was in the democratically elected chamber that "most of the debate should take place" (col 70). Jacob Rees-Mogg (Conservative) wanted reassurance that there would be sufficient time to debate amendments passed in the Lords when the Bill returned to the Commons (col 60). The Minister replied that it was "absolutely right that this House should have the chance to consider them all at leisure and thoroughly" (col 61).

Andrew Tyrie (Conservative), Chairman of the PCBS, was critical of the Government's general approach and stated that key aspects of the PCBS recommendations had been omitted. These included recommendations on leverage, which followed the recommendations of the Vickers Commission, and on reform of the Bank of England's governance structure, which followed the recommendations of the Treasury Select Committee. He stated that the Government had rejected the need to wind up United Kingdom Financial Investments Ltd and the regulatory reforms to provide statutory autonomy for the regulatory decisions committee. He also said that the Government had rejected the proposal to remove the Financial Conduct Authority's strategic objective, which would weaken its operational objectives. On all these issues, he hoped that "their lordships will repair some of the damage that we have been left with no time to attend to here" (cols 75–6). He set out what action was required to raise standards in banking:

> First, it would need to come from the ring fence, but that needed to be reinforced. Secondly, improvements to markets and competition would be needed—competition can often be the best regulator. Thirdly, corporate governance needs to be improved. In particular, it is vital to ensure that remuneration does not, as it has in the past, incentivise excessive risk-taking. Fourthly, regulators need to be better held to account. They need to be incentivised to do their jobs more effectively—a primary duty for Parliament. Fifthly, standards need to be supported by more powerful and effective sanctions in the hands of regulators.
>
> (col 77)

He also pointed to: the importance of bank account portability; the need for a detailed analysis of options for the future of RBS, especially in terms of a good bank/bad bank split; the introduction of a senior persons regime with enforceable sanctions, including custodial sentences; more radical steps to incentivise better behaviour amongst all banking staff, including deferred bonuses tied to longer-term performance (cols 80–1).

Mark Garnier (Conservative), a member of the PCBS, said that key to bringing about changes to standards in banking was the availability of various credible deterrents, such as ring-fencing and criminal sanctions. He countered concerns that the banks may move abroad if they disapproved:

> They do not have a big range of options. A bank that wanted to go to the far east, for example, would face several problems, not least of which is the fact that were HSBC to up sticks and go to Singapore—this would apply to the remainder of the major four banks—its balance sheet would be about 1,100% of the country's gross domestic product, and no regulator would enthusiastically receive a bank of such a size. Secondly, we should remember that several factors in this country are incredibly important to banks, such as our robust, transparent and tried-and-tested legal system. We are a member of the single market, which gives banks access to the whole of Europe; we speak English, which is the language of the international business and banking community; and we are also at the centre of the time zones.
>
> (cols 88–9)

The Minister responded to criticism that amendments in relation to the PCBS's final report would be debated in the Lords. He said that he had said "explicitly on Second Reading that the recommendations of the commission's final report on standards and culture would be reflected in amendments to be made in the House of Lords". He said that it was "right to expedite the response to the report so that it is available much more quickly than usual" and that it would be useful in informing further debate in the Commons and the Lords (col 90).

3.1 Ring Fencing and Electrification

The Minister, Greg Clark, spoke to several amendments, which sought to bolster the effectiveness of the ring fence called for in the first report of the PCBS. He said that the Bill would take as its guide the three objectives set out by the PCBS: "first, to insulate essential day-to-day banking services against shocks originating elsewhere in the financial system; secondly, to make banks more resolvable; and, thirdly, to curtail the perceived implicit Government guarantees to banks, which follows from the first two". He said that the Bill would turn these ring-fencing objectives into law by making them part of the statutory objectives of the regulators—the Prudential Assurance Authority (PRA) and the Financial Conduct Authority (FCA). Government amendments sought to amend the Financial Services and Markets Act 2000 (FSMA) to ensure that a ring-fenced bank's business was carried out prudently and protected against risks that might threaten the continuous provision of core services. FSMA would also be amended to require the PRA to ensure that the failure of a ring-fenced bank would not interrupt core retail banking services in the UK. He stated that any ring-fenced bank that was poorly managed would be allowed to fail but that to "avoid serious harm to the wider economy essential core services must be kept running, which requires the PRA to ensure that the business of a ring-fenced bank is structured in a way that allows it to be resolved in an orderly fashion" (HC *Hansard*, 8 July 2013, col 61).

Government amendments also aimed to change the remit of the FCA in the "unlikely event that it ever became the prudential regulator of any ring-fenced bank" (col 63). He then spoke to a number of Government amendments which sought to introduce "electrification".[2] They would give powers to the regulator, with the consent of the Treasury, to require a group to separate completely its retail and wholesale banking operations. The regulator would be able to require the group either to sell its interests in ring-fenced or non-ring-fenced entities, or to transfer specified businesses to outside ownership. The regulator would also be able to require separation if it was satisfied either that the group's ring-fenced bank was not sufficiently independent of the rest of the group or that the conduct of any member of the group was such that it undermined the regulator's statutory objective to ensure the continuity of core services. The amendments also set out the process that would be involved:

> The first step is that the regulator must notify all affected members of a group that it is minded to exercise its powers and how it proposes to do so. The affected bank has the right to make representations following the receipt of each notice. Following that stage, the regulator is required to allow members of the group at least a year to take action to rectify the position. If, after that period, the regulator wishes to proceed it must issue a warning notice before a requirement to separate is imposed. The regulator would then allow five years to complete the separation required in line with the disposals required under competition law, particularly state aid interventions.
>
> (col 64)

Further amendments dealt with concerns that the use of ring-fencing transfer schemes to restructure groups could provide banks the opportunity to avoid responsibilities, such as liability with past misconduct. This included that before the PRA could consent to a ring-fencing transfer scheme it would have to first commission an independent report to assess whether anyone other than the bank itself would be adversely affected by the transfer (col 65). He then dealt with the issue of full separation as a policy in its own right. He said that if this was to be introduced it would need to be effected through full primary legislation and be subject to the same levels of consultation that ring-fencing had been (col 66).

Chris Leslie, speaking for the Opposition, began by welcoming some of the Government amendments regarding the extension of the regulatory perimeter and the definitions of the

[2] The term 'electrification' in the context of the Bill means that regulators would have the power to fully break up a bank if it did not follow the ring-fence proposals.

FCA and the PRA. He then spoke to a number of Opposition amendments. Amendment 17 would have inserted the need for a thorough review every two years of the ring-fencing of retail banks to augment the electrification of the ring fence. He maintained that a "proper and independent review of the adequacy of ring-fencing every two years... would be better than the Government's PRA-led approach" as it "would be inadequate for the regulators to lead the process". He added that this was needed because "the jury is out on whether ring-fencing will work" and that it would avoid the danger that "the regulators will simply end up marking their own exam paper" (cols 71–2). He then spoke to Opposition amendment 18, which proposed sector-wide powers for full separation of banking as a back-stop if ring-fencing did not work, which he said was based on proposals drafted by the PCBS. Though he wanted to give ring-fencing a chance, he thought that the Bill should contain a back-stop of full separation if it did not work. He was critical of the Government's proposals in this respect:

> The process in Government amendment 6 will take six years should ring-fencing fail, which is a snail's pace... First, the Treasury will look to the regulator to issue not just one preliminary notice but three—the idea of three preliminary notices seems like an impossibility—all of which have different timetables. I do not know whether three preliminaries means, "We're coming to get you, but not quite yet." It is like the Education Secretary, with his firm hand, saying to children, "We're going to come and get you, but we'll give you three preliminary notices before we do so." The kids will be crawling all over the ring fence for months and years.
>
> After those preliminary notices, a warning notice will be issued, followed very swiftly—not—by a decision notice. There will be at least five steps over a six-year period. "Five strikes and you might be out in six years' time" does not strike me as an effective back-stop power for galvanising and electrifying the ring fence. If the Government recognised for six years that there was a flaw with ring-fencing but did nothing, their culpability would be almost equal to that of the banking sector.
>
> ... This is a back-stop power in name only, and just because the Government say it is a back-stop power does not make it so.
>
> (cols 72–3)

He thought that what was needed was the "ability, on a firm-by-firm basis at the very least, to take firm action to a timetable that shows flexibility and can be enacted if need be" (col 73). However, if that failed full separation was a necessary back-stop power. Such a power would incentivise the banks to comply with ring-fencing. He said that: "If the Government are correct in believing that ring-fencing will be adequate, the amendment will do no harm to the policy. It will sit dormant on the statute book. But if the Government are wrong, and this backstop power is not in place when it is needed, serious consequences could arise". He thought that the Lords would return to the issue (col 74).

Andrew Tyrie (Conservative), Chairman of the PCBS, was critical. He said that despite the Government appearing to have accepted the Commission's proposal on a specific power to force the separation of an individual bank, it was now severely weakening that power as the "Government's amendments would render the specific power of electrification virtually useless" (col 75). He maintained that standards in banking would only improve if the ring fence was made more robust with the additional power of electrification: "The risk of the shock of separation would be an essential incentive to improve behaviour" (col 77). He noted that the PCBS had discussed the case for full separation, but had concluded that it should not be considered until the Vickers ring-fence approach had been tried. The PCBS had also examined the merits of a closely related proposal for the separation of proprietary trading from the rest of banking activity, but concluded that further statutory support was not needed for that approach because the Prudential Regulation Authority (PRA) might already have the powers to implement an effective separation of proprietary trading. The PCBS had asked the PRA to present a report to the Treasury and to Parliament on its use of a range of monitoring and corrective actions, which could serve as the subsequent basis for a full and independent review of the case for full separation of proprietary trading. However, he was concerned that the Government did not share this view (col 78). He said that the Government's proposals created "too many obstacles and delays to the sanction of full separation". He outlined three specific criticisms:

> First, it requires the regulator to issue—we have already heard a little about this—no fewer than three preliminary notices and a warning notice before it can act. Secondly, it then requires the regulator to obtain permission from the Treasury no fewer than three times while the process is in train. Putting that requirement on the statute book would transfer most of the effective regulatory decision-making power away from the PRA and the Bank of England to the Treasury. It cannot be appropriate for the Treasury to be the regulator. The commission argued for a Treasury override at the end of the process, not at the beginning or in the middle, but the Government's amendment requires the regulator to secure the consent of the Treasury on three occasions prior to that point. Even so-called preliminary notices—in effect, expressions of concern by the regulator—will require Treasury consent. That is absurd and compromises the regulator's independence.
>
> The third objection has also been alluded to. The Government's amendments allow at least five years for the completion of the separation after a decision has been made. That would create enormous scope—indeed, it would make it ideal—for lobbying for a change of heart in the interim. It would create far too much room for that and we can do without it. It also flies in the face of what the Minister said in Committee, where he alerted Parliament to the risk of what he described as an "inordinately long" delay in implementation. A tool that is so difficult and slow to use is likely to deter no one and that is why I have proposed a number of amendments that would remove some of the obstacles erected by the Government to taking action to separate banks.
>
> (col 79)

He tabled an amendment that would give effect to the PCBS's proposal allowing for full separation. He hoped that that amendment might be seen as a better starting point than the Government's when the Bill was considered in the Lords.

Pat McFadden (Labour), a member of the PCBS, said that electrification was required as a backstop as the financial crisis of 2007–2008 and the LIBOR scandal had demonstrated how intertwined the banking system was and that separation could only act as deterrence if it applied to the system as a whole. He said that even if its use was unlikely, it would help enforce good standards and "make those running banks think long and hard about the consequences before they decide to test or game the system in any situation in future". He supported a periodic two year review of ring-fencing (amendment 17) (cols 83–4). John Thurso (Liberal Democrat), a member of the PCBS, maintained that the ring fence would only work if it was reinforced, and in terms of full separation if people believed that "when the weapon is deployed it will have a consequence". He said that the PCBS was unanimous in agreeing that the ring fence needed to be reinforced. He feared that without it: "we will simply have a lot of regulation that might lead not to a successful conclusion but to a long dialogue that leads nowhere between the regulator, the Treasury and the institution" (cols 86–7). Mark Durkhan (SDLP) said that the Government's proposal would mean a process that could take longer than the life of a Parliament to have an effect: "There will be not just the preliminary decisions but the Treasury consents required for those decisions, and tribunals after the warnings and the decisions, then variations and consultation between the regulators—the whole thing will go on" (col 87). Caroline Lucas (Green Party) said that she was disappointed that the Government had not looked at "full legal separation of investment and retail banking" (col 63).

The Minister spoke against amendment 17, which called for a review of ring-fencing every two years. He contended that such a review would mitigate against the Bill's intention, which was "to secure consensus, as far as that can be established, and to provide for a stable regulatory structure" (col 65). He also replied to Mr Tyrie's concerns about electrification and ring-fencing. He said that he was confident that if the Bill could be improved during its passage "all his concerns about the use of the power can be addressed" (col 90).

The Government's amendments were accepted. Mr Leslie pushed amendment 18, regarding the full separation of banking, to a vote. It was defeated by 274 votes to 225.

3.2 Leverage Ratio

Chris Leslie, Shadow Financial Secretary to the Treasury, moved new clause 9, which aimed to insert into the Bill an overall leverage target for the UK's financial system, including the activities of foreign international institutions and non-bank originators of credit. It stipulated that after each three month period that the Financial Policy Committee (FPC) of the Bank of England would notify HM Treasury of any instances where the Committee had acted or had not acted to regulate leverage in the financial system to an identified target in a manner consistent with maintaining adequate credit availability and growth in the economy. Mr Leslie set out why this was important:

> ... a bank's leverage is the ratio of its assets to equity capital. Its equity capital is equal to the value of its assets, minus the value of its liabilities. Higher leverage rates magnify returns, because any growth in assets will be proportionately greater if equity is thin, but—and this is why it matters—the corollary is that any losses are magnified if leverage is greater. Its equity can be wiped out by a smaller shock than would wipe out the equity of a less leveraged institution.
>
> (HC *Hansard*, 8 July 2013, col 102)

He was concerned that Government had indicated that it would provide the FPC with a time-varying leverage tool, but that this would not be before 2018, after a review of international progress in this area in 2017. He argued that the UK should not wait for the EU, which was looking into this area, to act. He stated that the Independent Commission on Banking had said that it supported the use of leveraged ratios as a back stop and a tapering of requirements when a bank crossed a certain threshold by increasing the minimum leverage ratio from 3 percent—the Basel proposal—to over 4 percent on a sliding scale, as the risk weighting of assets to GDP ratio increased from 1 percent to 3 percent. He noted that this issue had also been addressed by the PCBS. He quoted the PCBS as stating that it was "essential that the ring-fence should be supported by a higher leverage ratio, and would expect the leverage ratio to be set substantially higher than the 3 percent minimum required under Basel III" and that "not to do so would reduce the effectiveness of the leverage ratio as a counter-weight to the weaknesses of risk weighting" (cols 103–4). He said that the aim of his proposal would be for a target to be set for the financial system as a whole, with the regulators empowered to make more sophisticated judgments about firm-by-firm leverage arrangements, which could take account of institutions which were significantly different from one another (col 104). It would be a mechanism to measure risk by sector and to identify which needed more capital and to test the robustness of institutions to respond to pressures. It would also "augment Bank of England independence in relation to operational decisions on monetary policy and take into account the need to supply credit to the wider economy", which he said was supported by the Building Societies Association and others (col 106).

John Redwood (Conservative) welcomed new clause 9 as an opportunity discuss the key question: "what action should the Government and regulators take to try to ensure that large banks and other institutions advancing credit that can be a risk to the whole system are kept under sensible control, so that we can be pretty confident that, if something goes wrong or the world economy dips, they have the necessary money to pay the bills and deal with any losses that might arise?" (col 107). He agreed that it might be desirable to set a leverage ratio for the system as a whole, but he was concerned that it would not be easy managing the transition to it: "we do not want to get there too quickly if that means a further jolt to expectations and confidence and further actions by banks to pull back loans, rather than financing the recovery that we clearly need from them" (col 108). He said that he wanted stronger banks with tighter ratios, but through growth and growth in bank profits (col 110).

Pat McFadden (Labour), a member of the PCBS, contended that one of the issues that the debate highlighted was the "inadequacy of the over-complex Basel regulations, which have allowed banks to game the system and say they had hugely different capital ratios on similar classes of assets in different institutions". He thought that not enough attention had been given to leverage and the resilience of banks against future risk and their ability to absorb losses. He questioned the argument that "we can either have banks that lend, or safe banks, but we cannot have both". He argued that banks could find other means of improving their capital ratios: "Over the past decade or two, vast amounts of money have been paid out in remuneration that could have improved capital ratios without having any effect at all on lending" (col 110).

The Minister, Greg Clark, welcomed the spirit of new clause 9. He set out progress in this area. He noted that the Government had consistently argued for "a binding minimum leverage to be implemented internationally, to supplement the risk-weighting requirements". He noted that the Basel III standard of 3 percent was due to commence in 2018, after a review in 2017. He pointed to the PRA which was empowered to ensure that banks' risk models were appropriately conservative and, where necessary, to set higher capital requirements. The PRA had recently announced that major UK banks needed to set out and implement plans to improve their leverage ratios and so migrate further towards Basel III. In addition, the FPC had been given a number of directive powers. These included a counter-cyclical capital buffer and the power to set time-varying sectoral capital requirements and the Government had indicated its intention to give the FPC the power to vary through time the baseline leverage ratio requirement, always subject to its never being below the requirement determined by Basel III. On new clause 9 specifically, he thought it went against the PCBS recommendation that the FPC should be given the power to determine leverage ratios, and not politicians. He was worried that a system-wide average, or net, leverage ratio, which was what he suspected the clause would deliver, might conceal risks in specific institutions. He was also concerned that it might lead to the FPC attempting to turn measures for financial stability into a target which would not adequately reflect the range of systemic risks and which would therefore be unsuitable for setting policy responses (cols 111–12).

Chris Leslie said that he was unhappy with the Minister's reply, which he characterised as "we'll just leave this and do it internationally". He pressed the amendment to a vote and it was defeated by 271 votes to 211.

3.3 Individual Accountability and a Duty of Care

Stephen Barclay (Conservative) spoke to his new clause 2, which sought to reverse the burden of proof in assigning individual responsibility to a person who was performing "a significant influence function" and who was guilty of misconduct. His new clause would place the onus upon the individual concerned to "prove his standard of behaviour was reasonable in all the circumstances". He said that the reversal of the burden of proof alongside other measures, such as the deterrent effect of criminal sanctions, could be a key action in changing the culture in banking (HC *Hansard*, 8 July 2013, cols 119–21).

Cathy Jamieson (Labour/Co-op), Shadow Economic Secretary, noted that the Government had announced plans to implement measures to improve individual accountability, had mentioned a tough new senior persons regime governing the behaviour of senior bank staff, and outlined a willingness to take forward work on new banking standards rules to promote higher standards for bank staff (col 122). She then spoke to new clause 4, which aimed to introduce duties of care for ring-fenced bodies, which included a fiduciary duty in relation to the carrying out of core services and a more general duty of care across the financial services sector. She said that the new clause would address consumer concerns that their "best interests were being served, and that those selling financial services products were doing so in a prudent and ethical manner". The banking sector would also be required to "take customers' interests into account not only when designing the products, but to be able to provide advice throughout their life cycle". She used the example of PPI to illustrate why the new clause was necessary, as a means of tackling those who put short-term gain before the longer term and who took advantage of consumers' possible lack of knowledge about a service or product (cols 123–4).

Andrew Love (Labour/Co-op), a member of the PCBS, said that the PCBS had been "genuinely shocked" by the bankers who gave evidence: "Whether it was ignorance of the serious failings happening under their noses, or because there was collective decision making, the result was the same: no one could be held to account". He argued that this indicated the failure of the approved persons regime, which did not attribute responsibilities to senior staff, who, as a result, could not be held to account (col 132). He noted that the PCBS had proposed two steps. First was the new senior persons regime, designed to ensure that the most important responsibilities were assigned to specific individuals, who would more easily be held to account for them. The second was a new licensing regime to encompass a wider group who could do serious harm to the bank, or its customers, due to their customer-facing position. He thought that this would allow regulators to be better able to identify those responsible and to enforce existing civil penalties, such as fines, restrictions and bans. The PCBS had also proposed an offence of reckless misconduct in the management of a bank, which would normally carry a custodial sentence.

The Minister, Greg Clark, in response, began by setting out what the Government would do:

> Specifically, we will enact the new senior persons regime that the commission proposes and introduce new banking standards rules to require high standards among all staff. We

> will introduce the new criminal offence of reckless misconduct that has been suggested for senior bankers. We will reverse the burden of proof so that the bosses are held accountable for breaches within their areas of responsibility. We will work with the regulators to implement the commission's proposals to defer bonuses for up to 10 years and to enable 100 percent clawback of bonuses where banks receive state aid. We will ask the regulators to implement the commission's recommendations on corporate governance to ensure that firms have the correct systems in place to identify risks and maintain standards of ethics. As I have said in earlier debates, where legislation is required, we will propose amendments in the autumn in the other place.
>
> (col 135)

He then turned to the various amendments. He agreed with the general thrust of new clause 2 and the recommendations of the PCBS that it was not right that the regulator had to show that senior managers knew what was going on when there was malpractice in order to be held to account. It was important to address the problem that while action could be taken against junior employees who were implicated, it was more difficult to attribute responsibility to senior managers. He said that he would reflect on this issue before the Bill went to the Lords. He also stated that the Government would bring forward amendments to introduce the new senior persons regime to replace the FSMA's approved persons regime. The new regime would "ensure that key responsibilities within banks are assigned to specific individuals who are aware of those responsibilities and have formally accepted them". The regime would reverse, as detailed in relation to new clause 2, and would allow regulators to "make the approval of senior persons subject to conditions and time limits". New clauses moved in the Lords would also put in place new arrangements for regulating the conduct of individuals who were not covered by the senior persons regime. These arrangements would include provisions to allow the regulators to make rules covering financial services employees whose appointments were not subject to regulatory pre-approval (col 136). On the question of new clause 4, he argued that the PCBS had not recommended the introduction of a fiduciary duty or duty of care, but had recommended an alternative route by which the Department for Business, Innovation and Skills (BIS) should consult on changing the duties of the directors of ring-fenced banks, to prioritise the safety and soundness of the firm first, over the interests of shareholders. He suggested that the best way forward was to consult on whether changing directors' specific duties under the proposed senior persons regime would help safeguard the security and stability of a firm. He questioned whether a duty of care would be easy to "make sense of". He wondered whether, for example, it would mean that a bank had a duty of care not just to its own customers and those of its competitors but to all customers across the financial sector, some of which might not have any relevance to the firm itself. He hoped that the Government's intentions on the wider duties of banks and directors would suffice (col 137).

Cathy Jamieson put new clause 4 to a vote and it was defeated by 272 to 217 votes.

3.4 Criminal Offence for Reckless Misconduct and Tackling Financial Crime

Cathy Jamieson (Labour/Co-op), speaking for the Opposition, welcomed the Government's decision to introduce a new criminal offence for reckless misconduct for senior bankers (HC *Hansard*, 8 July 2013, col 122). However, she spoke to new clause 11, which dealt with criminal sanctions. It would require the Government to bring forward proposals for the new offence of reckless misconduct in the management of a bank covering the people licensed under the senior persons regime and would seek civil recovery of money from people found guilty of the offence. She pointed to the recommendations of the PCBS and the Prime Minister's support for penalising, including criminal penalties, bankers who behaved irresponsibly. She was disappointed that the Minister had not brought forward appropriate amendments for consideration at report and had instead left them to be considered by the Lords (cols 127–8). In addition, she spoke to new clause 13, which sought to encourage debate on whether a new agency was required to tackle criminal conduct in the provision of financial services and whether the Serious Fraud Office was adequately equipped to deal with such offences (col 128).

Richard Fuller (Conservative) spoke to new clause 11. His view was that jail for bankers who had been involved in scandals, such as PPI and LIBOR, was the "only fair outcome" for the victims of those scams. He thought that the threat of jail and the loss of liberty was key to changing behaviour in banking (cols 130–1). Andrew Love (Labour/Co-op), a member of the PCBS, said that the PCBS thought that anything that destabilised the financial system should be subject to a criminal sanction (cols 132–3).

In response to new clause 11, the Minister said that the Government agreed with the PCBS and would draft amendments to create a "legally watertight criminal offence, including compliance with the European Convention on Human Rights". He accepted that mounting a successful prosecution would face legal challenges but said that the creation of such an offence would be justified "by the signal that it sends and the potential deterrent effects it can have" (col 138). On new clause 13, the Minister said that the Government fully recognised the importance of tackling financial crime and that there would be a dedicated command within the new National Crime Agency responsible for directing the national response to economic and financial crime across different sectors.

3.5 Pay and Bonuses

Cathy Jamieson (Labour/Co-op), Shadow Economic Secretary, acknowledged that the Government had made commitments to work with regulators to implement the Commission's proposals on pay, allowing bonuses to be deferred for up to 10 years, and enabling 100 percent clawback of bonuses where banks received state aid (col 122). However, she moved new clause 5, which sought to generally ensure that remuneration took account of performance and stability over a five to ten year period. Though she accepted the dangers of catch-all provisions, she said that banking culture needed to change and that the new clause attempted to ensure that "banks think for themselves about how to ensure that their performance is sustainable" (col 124).

Andrew Love (Labour/Co-op), a member of the PCBS, said that on the question of remuneration and incentives, the PCBS believed that variable pay should be "deferred to take into account changing circumstances at the bank at which the banker works, with power for the regulator to extend the period for up to ten years". He thought that regulators should be able to limit or prohibit sales-based incentives, such as PPI and interest rate swaps. Furthermore, he contended that the regulator should have the discretionary power to cancel all deferred compensation for any bank that required taxpayer support (cols 133–4).

The Minister, in relation to new clause 5, noted that the Government had already taken "significant steps in terms of remuneration". He said that under the remuneration code, large parts of bonuses would be deferred and paid in shares, and cash bonuses would be limited, while in 2014, shareholders would have a binding vote on executive pay. The Government strongly supported the proposals made by the PCBS that the regulator should have the power to require a substantial part of remuneration to be deferred for up to ten years when it was deemed necessary for effective long-term risk management. The Government also agreed with the PCBS view that no single deferral period was appropriate and that it should be determined in accordance with the nature of each business and the risks and activities of the employee in question. He said that the Government would ask the PRA to consider the powers that it had to extend deferral periods as part of its consultation on implementing the Commission's proposals (col 137).

3.6 Whistleblowing

Cathy Jamieson (Labour/Co-op), speaking for the Opposition, spoke to new clause 7, which was concerned with protection for whistleblowers. She said that it was important that workers were protected if they made a disclosure in the "reasonable belief" that misconduct had occurred, was occurring or was likely to occur. This would include imposing a duty on managers to inform the bank chairperson of any report that qualified as a "protected disclosure". She noted that this reflected paragraph 788 of the PCBS's final report. The LIBOR scandal had illustrated the importance that if an honest trader suspected wrongdoing they could feel that they could inform the authorities without fear of losing their job. She was concerned that the Government was linking whistlebowling in banking with a wider BIS review of whistleblowing (HC *Hansard*, 8 July 2013, cols 125–6).

In reply, the Minister said that the provisions proposed were already covered by the Employment Rights Act 1996, in terms of criminal offences, while regulatory breaches were covered by the Financial Markets and Services Act 2000 (FMSA). FMSA also permitted that a non-executive board member, such as the chairperson, should be given specific responsibility under the senior persons regime. He noted that BIS were also shortly to launch a call for evidence on whistleblowing more generally (cols 137–8).

3.7 Review of Competition in the Banking Sector

Chris Leslie, Shadow Financial Secretary to the Treasury, moved new clause 8 and a series of other amendments which sought to remedy the "lack of competition and lack of choice" within the banking sector and in particular the "absolute dominance of the big five banks". New clause 8 contained proposals which would require the Treasury to publish a review within a year of the Bill being enacted that would consider the obstacles to competition and in particular to new "challenger" banks, whilst investigating ways of increasing the number of new banks entering the sector (HC *Hansard*, 9 July 2013, col 215). Mr Leslie supported mutuality and greater diversity in the banking sector. He pointed to recommendations from the PCBS, to comments by the Chief Executive of the Office of Fair Trading and to evidence gathered by Which?, that indicated that there was a lack of competition and that the larger banks had not earned their market share by innovation or the provision of competitive services or high customer satisfaction levels, but rather through customer inertia. He said that new clause 8 was modelled very much along the lines of the market study suggested by the PCBS. He sought to highlight the major barriers facing aspirant new entrant banks and suggested that issues such as utility platform sharing and an extension of the payments system machinery beyond the big banks needed to be considered (cols 216–7).

John Thurso (Liberal Democrat), a member of the PCBS, said that the PCBS very much supported new clause 8. He thought that it did not require legislation and hoped that the Minister would make a commitment (col 237).

The Minister, Greg Clark, stated that in response to the PCBS, the Office of Fair Trading (OFT) had announced that it would bring forward its investigation into small and medium-size banking as part of an ongoing programme of work to investigate concerns about competition in banking. The OFT had recently completed an investigation into the personal current account market and the Government had asked it to consider the impact on the new challenger banks created by the divestments from Lloyds and RBS. The OFT aimed to conclude its programme of work in 2014 and would then decide whether a market referral to the Competition Commission was needed. He therefore hoped that such commitments, which were more or less of the same timeframe as envisaged in new clause 8, alongside the "significant measures being implemented to enhance competition", would mean that new clause 8 was not necessary (col 239).

Chris Leslie said that the Government was not doing what was necessary to get the proper competition required to help the challenger banks and to break open the number of players in the market. He feared that references to the OFT was "always a case of this Minister kicking the can further down the road yet again" (col 243). He pressed new clause 8 to a vote and it was defeated by 292 votes to 230.

3.8 Sale of State-Owned Banking Assets and Regional Banking

Chris Leslie, Shadow Financial Secretary to the Treasury, spoke to new clause 10. It stipulated that before the sale of any publicly owned banking assets, HM Treasury would be required to submit a timely report before Parliament. The report would set out how the sale would: best serve the interests of the taxpayer; increase competition within the banking sector; restructure the banks concerned, especially with regard to the split between core and investment banking and the retention of some assets by HM Treasury; and impact on regional banking networks. He said that this would ensure that if state-owned banking assets were to be sold "options for a regional banking network ought to be fully considered". This could help address those communities where access to finance and basic bank account services were a problem (cols 218–9). He then turned to the question of protecting the taxpayer. He argued that any sale of state-owned assets should take into account its impact on competition for customers and economic growth. He stressed that political considerations should not influence the process, such as a sale before a general election. Such a report should also very clearly state whether there would be any structural changes, such as divisions between retail and investment banking, or whether some classes of assets would be retained. He concluded: "We need a comprehensive assessment that is evidence-led and considers all options" (cols 221–3).

Pat McFadden (Labour), a member of the PCBS, supported new clause 10 and sought to highlight what he saw as past political posturing regarding state-owned RBS shares, which he said had not been in the best interests of the taxpayer. He pointed to what he argued were political briefings that sought to "set the scene for a pre-election fire sale of the bank that would have short-changed the tax payer" and to the "unseemly departure of chief executive at the Government's hands". He said that this had "undermined the Government's reputation as regards these state-owned assets and done harm and damage to the bank" (cols 233–4).

Caroline Lucas (Green Party) spoke to her new clause 15, which was a "modest" proposal for a full Government consultation on the potential for local stakeholder banks to be carried out before the sale of any taxpayer-owned banking assets. She pointed to the German models of Sparkassen saving banks, which were run commercially with dual financial and social objectives. Day-to-day responsibility was taken by professional bankers with a supervisory board, composed of local stakeholders, including local politicians, business leaders, employees and customer representatives. Evidence from the New Economics Foundations (NEF) of such models in 65 countries indicated a number of benefits. These included a greater focus on the needs of customers with more competitive products, better service and longer-term lending and provision for customers who were currently under-served by regular banks. There was also a boost to local economic development through lending to small and medium-sized businesses, which prevented capital drain from the regions and maintained branch networks. Finally, they encouraged financial stability through less volatile returns, high levels of capital, prudent balance sheets and expansion of credit provision after the financial crash. Such banks were also found by the NEF to make solid profits but did so at more modest rates of 8 percent rather than the 22 percent sought by some UK banks. She supported new clause 10 tabled by Mr Leslie, especially sub-paragraph (iii) which referred to the impact of any sale of state-owned banking assets on the creation of a regional banking network (cols 228–30).

John Thurso (Liberal Democrat), a member of the PCBS, said that he would not vote for or against new clause 10. He said that within the PCB there was a lot of debate about the good bank/bad bank split. He thought that whether a good bank/bad bank split was a good idea was a completely different issue from what should be done afterwards and that if a good bank/bad bank split was not needed, one could still consider issues such as enhancing regional banking and credit unions. He personally believed that a good bank/bad bank split was right because: "if we take the flakier assets out of the bank and put them in a run-off bank, therefore liberating the capital being used in the balance sheet to support it, capital is then available in the good bank to be lent to SMEs and individuals" (col 237).

The Minister, Greg Clark, agreed that a revival of regional banking in the UK would be a "very good thing" and was optimistic that banks along the lines of the Sparkassen could be established. He pointed out that it was now possible to license new entrants with 80 percent less capital than previously, which meant that the time was "now ripe for new banks in the regions to be established". There was the availability of £60 million of wholesale funding for community development finance institutions (CDFIs) through the regional growth fund and up to 25 percent tax relief on investments made by individuals and companies into CDFIs. More flexible rules for credit unions had also been introduced alongside £38 million made available to them. He argued that new clause 15 was not required because it called for a study, when the Government was taking action to support such developments. He then turned to new clause 10. He said that in terms of Lloyds, the Government was actively considering options for how its shareholding could be returned to the private sector and that value for money for the taxpayer would be the overriding consideration, and that there was no pre-determined timescale. For RBS, share sales were some way off. In line with the recommendation of the PCBS, the Chancellor had announced a review, to conclude in the autumn, into whether a bad bank should be set up for risky assets from RBS. Following the criteria suggested in the Commission's report, the review would assess whether creating a bad bank would accelerate the path back to private ownership, deliver benefits for the wider economy and be in the interest of taxpayers. He reiterated that the OFT was looking specifically at the impact that new challenger banks created by the Lloyds and RBS divestments would have on competition in small business banking. In addition, UK Financial Investments had a remit to provide value for money when selling the Government's shareholdings in the banks, and, in doing so, to pay due regard to maintaining financial stability and to act in a way that promoted competition. He thought that it was not clear that a new mandatory reporting requirement would add anything to the arrangements that were already in place. The strengthening of the role of competition through the reforms in the Bill would go a long way towards correcting the lack of competition in the previous regime.

Chris Leslie stated that a proper report and options appraisal for what to do with state-owned assets was essential and he was concerned that the Government had "ruled out any options appraisals for regional banking in the particular instance of RBS" (col 242). He pressed new clause 10 to a division and it was defeated by 292 votes to 228.

3.9 Portability of Bank Accounts

Chris Leslie, Shadow Financial Secretary to the Treasury, spoke to new clause 12, which sought to mandate HM Treasury to lay a report before Parliament that would examine the adequacy of voluntary arrangements made by UK ring-fenced bodies to facilitate easier customer switching of bank account services and explore legislative options for the introduction of portable account numbers and sort codes for retail bank accounts provided by UK ring-fenced bodies. He acknowledged that the banks had made proposals to introduce a seven-day switching arrangement in September 2013, but questioned whether this would "radically transform the convenience for the customer". He thought that this might work well for direct debits and standing orders but that it was less clear about payments being made into an account, as the arrangements were time limited to a certain number of months. He suggested that there was a growing consensus amongst members of the PCBS, and even some banks, that "portability might be an idea whose time has come" (HC *Hansard*, 9 July 2013, cols 220–1).

Andrea Leadsom (Conservative) moved new clause 14, which sought to address the issue of customers not being able to "move bank accounts freely and easily". She said that this was in spite of "shocking statistics" concerning customer complaints. What was needed was a system that allowed a person, when they moved banks, to take all their bank details with them, as happened when a person changed their mobile phone (cols 224–5). The technology to enable portability already existed and the IT required would enhance security issues and reduce fraud. The difficulties of smaller banks to participate directly in VocaLink's payments infrastructure, because of the prohibitive costs for smaller banks of mutually underwriting payments, could also easily be solved. The advantages of portability were manifold. The ability to easily change bank accounts because of poor service would be "an enormous change in the competitive environment". It would also eliminate some of the problems of "too big to fail", as with many more smaller players, with many product lines, if a bank failed, the Bank of England could move accounts into the survivor banks. Portability would also help business customers to move more easily (cols 227–8).

Mark Garnier (Conservative), a member of the PCBS, spoke to new clause 14. He argued that if customers were to benefit from the ability to move bank accounts there was a need for better financial literacy so that they could understand the various alternative products that were available. He noted that the banks had spent some £700 million on a switching system, but he feared that it represented "less a switching system and more a redirection system that lasts a year". He suspected that few people would switch accounts because "most people cannot see the difference between one bank and another". However, he thought that the proposal for account portability was a good thing and would "make it simple for new banks to enter the marketplace and steal market share from existing banks". It would promote competition and transparency. It would allow better resolution if there was a run on a bank as accounts would be automatically transferred to another bank, standing orders would be paid and customers could later transfer to a bank of their own choosing. Such a system would also be timely as it would convince banks to invest in overdue IT improvements to address "a lot of old and incompatible systems being held together with string and chewing gum" (cols 230–2).

Pat McFadden (Labour), a member of the PCBS, questioned whether account portability alone would encourage competition. Though the easy transfer of accounts was important, thought had to be given to where one would be transferring to and from: "There is little point in creating a perfect exit system if the choice is merely between three or four offers that are all much the same anyway". He thought that the seven-day switching process should be given a chance to work and be tested properly. He was also concerned that the cost of full account portability was not passed on to the consumer and that any new system that allowed account portability through VocaLink would address customer concerns about privacy (cols 234–5).

John Thurso (Liberal Democrat), a member of the PCBS, supported new clause 14. He said that the relationship between banks and customers was the reverse of what it should be, with customers approaching banks for business rather than the other way around. He thought that account portability, along with other reforms, such as the payments regulator, could be a key enabler to change the nature of the relationship.

The Minister, Greg Clark, noted that the PCBS had recommended that there should be a rigorous study conducted on the benefits to consumers and competition of account portability. He also drew attention to the seven-day switching service operated by the banks covering 99 percent of personal current accounts in the UK. He stated that the Government would "ask the new payments system regulator to conduct a comprehensive review of account portability, including a cost-benefit analysis, as an immediate priority". He said that the Government would also monitor the effect on competition of the fees shared between the bank of departure and the bank of arrival involved in account switching (cols 238–9).

4. Commons Third Reading

The Financial Secretary to the Treasury, Greg Clark, stated that the Bill was historic as it "resets the banking system in this country so that it can once again enjoy the reputation that it had, and its worldwide renown, not just for technical excellence but for high standards of confidence, built on probity". It also reflected the "extensive deliberations and contributions of not one but two bodies of eminent experts: the Independent Commission on Banking, chaired by Sir John Vickers, and the Parliamentary Commission on Banking Standards, chaired by my hon. Friend the Member for Chichester (Mr Tyrie)" (HC *Hansard*, 9 July 2013, col 253). He gave a commitment that ample opportunity would be given to consider amendments passed in the Lords in relation to the recommendations made by the PCBS in its final report on standards and culture in banking. He finished by setting out how banking would be reformed by three pillars:

> The first pillar was the institutional changes brought about by the Financial Services Act 2012, which received Royal Assent last December. That Act scrapped the failed tripartite system of regulation which, in the words of the parliamentary commission,
>
> "created a largely illusory impression of regulatory control".
>
> In its place, that Act restored the Bank of England to its rightful place by ensuring, through the Financial Policy Committee and the Prudential Regulation Authority, the stability of the financial system. It established new forward-looking, rather than box-ticking, conduct regulation in the Financial Conduct Authority.
>
> The second pillar of reform is embodied in the ring-fencing provisions advanced by Sir John Vickers and his committee, which are the main focus of the Bill under

> consideration. The reforms by the Parliamentary Commission on Banking Standards that deal with culture and standards represent the third pillar, and will play a major part in the passage of the Bill.
>
> (col 255)

Chris Leslie, Shadow Financial Secretary to the Treasury, paid tribute to the work of the Independent Commission on Banking and the Parliamentary Commission on Banking Standards. He argued that the Government had "stepped away from the radical changes needed to make banking reform a reality". He hoped that some of the Minister's assurances would be manifest in the Bill in the other place and that adequate time would be made available to consider Lords amendments when the Bill returned to the Commons. He turned to what he saw as the Bill's key omissions:

> They have not risen to the challenge on the leverage ratio to drive the reforms that are needed from a UK perspective. Instead, they want to wait for international and European Union agreement to resolve the issue. They have fallen short of what is required for proper electrification of the ring fence separating retail and investment banking activities. That should have been backed up with a reserve power for full separation of the sector as a whole if ring-fencing proves ineffective. We hope that it will be effective, but the jury is out on that.
>
> We think that the Government should have considered options, particularly in the sale of any state-owned assets in the main banks—RBS, in particular—to look not only at a split between good banks and bad banks, but at whether there is a case for changes in retail and investment banking or in relation to regional banking, but they rejected that. They have not gone for reform of the governance of the Bank of England to turn the court into a proper board, with the accountability needed to go alongside that when it comes to sounding the alarm on bank lobbying. We hope that the Minister will follow that up when the Bill comes before the House of Lords. There is not yet sufficient clarity on how the banking standards rules will relate to the codes of conduct or culture changes that we need in the sector. As we saw from an earlier Division, the Bill also falls short of the market study of competition in the sector, particularly as regards the retail banking activities that so many of our constituents feel frustrated about.

He finished by saying that the Bill was acceptable as far as it went, with "its baby steps on reform" and he would therefore not oppose its third reading (cols 257–8).

Pat McFadden (Labour), a member of the PCBS, was critical of the Bill and said that the Government had to convince both Houses that it endorsed the vast majority of the PCBS's recommendations (cols 259–60). John Mann (Labour) said that the Bill represented a "puny and inadequate set of proposals". He contended that the structure of banking remained pretty much as it was and that there was significantly less competition than there was ten years ago, with a consolidation of building societies, a third of which had vanished. He thought that the Government had "an aspiration, but no strategy for competition". The Bill did not deal with international issues such as the LIBOR scandal or transparency in the UK dependencies which remained totally opaque, specifically in relation to banking and subsidiaries. On international banking agreements, he accused the Government of "hiding even from the modest proposals emanating from Brussels". More fundamentally, he thought that the Bill "failed to create a concept of tiered risk for consumers to give them a choice" and that there had been no segmentation of the market, which was "why the challenger banks are getting no further" (cols 262–3).

David Rutley (Conservative) supported the Bill:

> It is critical to bringing about the individual accountability that many of us want to see across our financial services sector, with the tough senior persons regime, reversing the burden of proof and criminal sanctions for reckless misconduct. All those steps are vital, as is the ring fence and the attempts to electrify it. They will bring about a meaningful distinction between what goes on in retail banks, which are vital for individuals and small businesses, and more risky investment banking. In my interaction with other banks, such as HBOS and Barclays, it was clear that they had very different cultures and needed to be brought under control. The ring fence will help to do that.
>
> ... Bold, radical steps are required to move things forward and build the trust we want to see in our financial services sector. I commend the work of the parliamentary commission and the Government in taking these steps forward.
>
> (cols 261–2)

The Bill received its third reading unopposed.