Project Merlin

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Section Business & Transport Section

This note outlines the scope of Project Merlin which was designed to improve relations between government and the banking industry and included commitments on bank lending to business.

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1 Project Merlin

1.1 Merlin agreement

The Merlin agreement was the outcome of negotiations between the banks and government on a number of issues. Its intention was a combination of 'peace' talks and 'reparations'. The Banks wanted a more normal relationship with government (and public). The Government wanted signs of renewed commitment from the banks to the public good, reflecting the public support given to them during the crisis and since. The banks gave the broad context of the agreement in a statement they issued alongside that of the government. They said:

> The context for this agreement is the creation of an accord between the UK Government and the major UK banks – specifically Barclays, HSBC, LBG and RBS, and, in the context of lending, Santander. In entering this agreement, the banks explicitly recognise their responsibility to support economic recovery. The components of the agreement are lending, tax, pay and other economic contributions beyond those. The banks expect, in the light of the statements contained within this document, a commitment by the Government to the stabilisation and improvement of the relationship between the Government and the banks; to the creation of a level playing field internationally for UK banks (in particular consistent with G20 commitments); and, subject to increasing shareholder engagement, the acceptance of the right of self-determination by bank boards.[1]

After a long period of negotiation, agreement was reached on 9 February 2011. The Treasury press release is shown in full below:

> **Government welcomes banks' statements on lending 15% more to SMEs, and on pay and support for regional growth**
>
> The Government today welcomed the commitment by the UK's biggest banks on lending expectations and capacity, the size of the 2010 bonus pool, pay disclosure and support for regional growth and the Big Society.
>
> This statement by Barclays, HSBC, Lloyds Banking Group, RBS and, with respect to lending, Santander, follows a period of discussion between the Government and the banks, known as Project Merlin.
>
> **Lending to businesses**
>
> The banks have stated a capacity and willingness to lend £190 billion of new credit to business in 2011, up from £179 billion actual lending in 2010. If demand exceeds this, the banks will lend more.
>
> £76 billion of this new lending capacity will be to small and medium-sized Enterprises (SMEs). This is a 15% increase on the amount actually lent in 2010 (£66 billion).
>
> Lending to small and medium sized businesses will be part of the performance metrics of each bank's chief executive and those of the senior managers responsible for business lending

1 Statement by banks on Project Merlin 9 February 2011

The banks' aggregate gross new lending will be collected and published on a quarterly basis by the Bank of England.

Pay and Disclosure

The aggregate 2010 bonus pool of the four banks UK-based staff will be lower than in 2009 and will reflect the explicit consideration and reflection the banks have given to the public mood and their engagement with the FSA, the Government (including through these discussions) and representatives of their leading shareholders on the subject of pay throughout the year, and reflects their duty to manage pay policy to protect and enhance the long-term interests of their shareholders. The Remuneration Committee Chair of each bank, responsible for pay and bonuses, will write to the FSA to confirm that their firm's 2010 pay settlements are consistent with the statement by the banks.

The Remuneration Committee of each bank will review and sign-off the remuneration of the 10 highest paid staff in each business area, where they do not already do so.

The pay of the 5 highest paid 'senior executive officers' will be published annually on an unnamed basis, in addition to the pay of the Executive Directors already published on a named basis in annual accounts. This means that the salary details of at least 7 executives (5 + the minimum of 2 Executive Directors salaries based on current board representation) will be published for each of the banks involved in these discussions, compared to the maximum of five individuals required in the USA.

The banks will voluntarily publish this information in 2011, covering pay in 2010.

The Government will consult with a view to introducing similar disclosures on a mandatory basis for all large banks from 2012 onwards, but go further and consult on the basis that the pay of the 8 highest paid 'senior executive officers' – in addition to those Executive Directors' salaries already disclosed - ought to be published annually.

Supporting Regional Growth and the Big Society

The banks have today announced additional support of £1.2 billion to support regional growth and the Big Society.

Of this the banks will provide £200m of additional capital over two years to set up the Big Society Bank.

The remaining £1 billion will be new capital available as soon as it is needed by the companies targeted by the Fund to increase the size of the Business Growth Fund, announced by the UK Business Finance Taskforce in October last year. Its objective is to increase the amount of equity investment allocated to potentially high-growth SMEs, and to make it easier for these businesses to get access to funding. It will support regional growth through a dedicated network of regional offices and those offices will actively coordinate with the Regional Growth Fund to support its objectives.

This new support is over and above the finance that will be provided through the commitments to make new lending capacity available.

A strong, resilient, stable and globally competitive UK financial services sector

The measures above are a demonstration by the banks of their social responsibility and support for UK businesses.

The Government acknowledges the importance of the financial services sector to the UK. It employs 1 million in the UK, two-thirds of them outside London in centres such as Edinburgh, Manchester, Leeds and Bristol. London is rated the number one global financial centre.

That is why the Government is committed to:

- creating a stable, predictable and competitive tax system;
- promoting a strong and proportionate regulatory system, securing international agreement where appropriate;
- implementing and applying European and international rules to create a level playing field in both policy and practice whilst protecting and maintaining the particular strength of UK financial services, and without pre-judging the outcome of the Independent Commission on Banking (IBC).
- maintaining the competitiveness of London and the UK as a location for global financial services;
- promoting the merits of the UK as a location in which to set up and run a business, including a bank or other financial services firm;
- encouraging good corporate governance and effective shareholder engagement;
- fostering the infrastructure, skills and business climate that support a world class financial services sector, and world class businesses;
- promoting effective dialogue between Government and businesses, the financial services sector and consumers; and
- not repeating in 2011 the one-off bonus tax announced in Budget 2009.[2]

1.2 The lending picture

The latest figures on Merlin lending were published in December 2012 by the Bank of England.

It is important to remember that the Merlin figures are collated on a different basis from other lending data and cover only the major banks. For full and more realistic information on the

[2] HM Treasury press release 9 February 2011

state of business lending generally readers are advised to look at the data collected in the Banks 'Trends in Lending' publication. The specific Merlin group figures are shown below:

Project Merlin Data; lending to UK businesses

£ billions

	2011				
	Q1	Q2	Q3	Q4	Total
Gross lending facilities					
Total	47.3	53	57.4	57.2	214.9
Smes	16.8	20.5	18.8	18.9	74.9

Source: Bank of England