

Kwarteng rules out wholesale reforms to bank 'firewall' regime

Kwasi Kwarteng, the chancellor, has ruled out tearing up the regime put in place to segregate high street lenders' investment banking arms that was put in place after the 2008 financial crisis.

Sky News has learnt that Mr Kwarteng told a gathering of industry chief executives this week that bank ring-fencing would not be scrapped or substantially diluted as part of a forthcoming overhaul of financial services regulation.

The chancellor's disclosure during Thursday's meeting will serve as a blow to industry hopes for a bonfire of regulation in an announcement pencilled in for later this month.

One City insider said the statement now looked "more like it will be 'Big Bang 1.5' rather than 'Big Bang 2.0'", a reference to the term given to the prospective package of reforms.

Following his controversial decision to scrap the Brussels-imposed cap on bankers' bonuses, Mr Kwarteng is expected to announce significant changes to the Solvency-II framework governing the insurance industry, as well as other post-Brexit reforms.

Financial services executives have been canvassed by Treasury officials in recent weeks to submit 'wish-lists' for regulations that they believe are onerous and stand in the way of economic growth.

Critics say, however, that a regulatory approach which prioritises competitiveness over financial stability risks

fomenting more crises across the sector.

More from Business



BoE rate-setter's vow on inflation fails to help stricken pound for long



Company insolvencies at highest level since 2009 as energy bills bite



'We plan for all eventualities': Minister fails to rule out energy rationing this winter

The decision not to scrap bank ring-fencing altogether implies that Mr Kwarteng has decided to implement the recommendations of a review published earlier this year by the Treasury.

The review, which was spearheaded by Keith Skeoch, the former Standard Life Aberdeen chief executive, suggested that the

retail deposits threshold at which lenders become subject to ring-fencing should remain at £25bn.

Advertisement

He did, however, also say that some banks which exceed the £25bn threshold but which have negligible investment banking arms could be removed from the ring-fencing strictures.

The implementation of ring-fencing nearly a decade ago effectively created a firewall between lenders' retail and investment banking operations, costing the industry billions of pounds.

Mr Kwarteng's remarks on ring-fencing were not included in an official Treasury summary of the meeting with bank bosses.

Barclays, Lloyds Banking Group, Nationwide and TSB were all represented at the talks, where the dislocation in Britain's mortgage market took centre stage.

Responding to an enquiry from Sky News, a Treasury spokesman said: "We welcome the comprehensive recommendations of the Skeoch Review into ring-fencing and proprietary trading rules which govern how banks invest and handle customer deposits.

"We will publish a response later this year."