

May 2025 update:
This letter is historical.
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for more information and current views.

15 April 2020

Dear CEO

Lending to small businesses

Over the past few weeks we have seen very significant efforts being made by the banking sector to deal with the impact of the coronavirus pandemic (Covid-19). For example, we have seen front line staff continuing to provide services in the most difficult circumstances from branches and call centres in order to assist a wide range of vulnerable customers. In such unprecedented circumstances, the FCA's approach is to be pragmatic wherever we can to assist banks to help their customers and to engage extensively and constructively with them and their representative bodies.

SMEs are absolutely vital to the UK's economy and Covid-19 brings significant challenges to the financial position of many from the loss of revenue and the disruption of cashflow. As you know, in response, the Government has introduced a package of measures to support businesses and its employees. For example, through the British Business Bank, it has established the Coronavirus Business Interruption Loan Scheme (CBILS). As the Chancellor, the Governor of the Bank of England and I set out in our joint letter of 25 March, the priority for all of us is ensuring that the benefit of the measures announced by the Government are passed through to the businesses and consumers that really need it as soon as possible. In order to assist lenders, the FCA issued new guidance to those participating in the CBILS on the information and circumstances that are relevant when assessing the affordability of such loans¹. Again, I know your firms will be working hard to accommodate the large numbers of applications for these

¹ <https://www.fca.org.uk/firms/business-loans-which-coronavirus-business-interruption-loan-scheme-applies>

measures from many small firms. Along with colleagues at the PRA we are collecting data to monitor the level of lending that is flowing to firms.

The activity of lending to an SME sits mostly outside the FCA's scope. However, the Senior Managers and Certification Regime (SMCR) defines the responsibilities and accountability of senior managers in banks in a way which applies to all activities they conduct whether they are regulated activities or not. Accordingly, we expect that for each bank that lends to SMEs there is a Senior Manager, or Senior Managers where appropriate, with clear responsibility for that activity. Furthermore, the FCA recently recognised as an industry code the Lending Standards Board's Standards of Lending Practice for Business Customers². This code will be something we consider in how Senior Managers and other relevant employees under the SMCR discharge their duties.

As CEO, we will expect you to take reasonable steps, along with your Board, to ensure that your Senior Manager(s) with responsibility for small business lending is discharging his/her responsibilities suitably. We will also look for evidence that, in discharging its oversight role, the Board is collecting information on the bank's treatment of SMEs and, where appropriate, challenging the Senior Manager. Our objective will be to ensure that there is not a repeat of the well documented historic issues in the treatment of SMEs. As we consider the move from initial crisis response to a medium-term model, it is critical that we learn the lessons from those events and we cannot see those mistakes repeated. In carrying out our supervisory work, however, I want to assure you that we will take account of the fact that, consistent with the objective to pass credit to firms, banks may now be making different judgements and adopting a different risk tolerance than they would prior to the Covid-19 pandemic in order to support SMEs.

Banks have provided vital finance and services to SMEs across the country for many years and I know you appreciate your role in the current crisis is particularly vital. Through our work over the past few years we have seen clear evidence that controls in relation to the treatment of SMEs have strengthened and it is vital that banks remain vigilant and are focussed on ensuring that SMEs are treated fairly.

Finally, from today the FCA has established a new small business unit, headed by one of our senior leadership team, Andrew Wigston. It will be overseen jointly by Jonathan Davidson (Executive Director of Supervision – Retail and Authorisation) and Sheldon Mills (Interim Executive Director of Strategy and Competition). This unit will coordinate the activities of the

² <https://www.lendingstandardsboard.org.uk/the-standards-for-business-customers/#the-standards-for-business-customers>

FCA across small business issues, in terms of ensuring regulated firms are supported to manage through the challenges posed by the current crisis, gathering intelligence about the treatment of small businesses by financial services firms during the crisis and ensuring a co-ordinated response by the FCA to any issues identified. We will also continue to co-ordinate closely with the Financial Ombudsman Service.

Yours sincerely

Christopher Woolard
Interim Chief Executive