COVID-19: Bank of England Governor, UK lawmakers warn industry against "profiteering"

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Lindsey Rogerson, Regulatory Intelligence

UK lawmakers and Andrew Bailey, newly installed as Governor of the Bank of England, have issued separate calls to financial services firms not to seek to profiteer from the COVID-19 pandemic. Anecdotal evidence has emerged that small and medium enterprise (SME) customers have yet to be offered government-backed interest-free loans and some hedge funds have racked up tens of millions of pounds in profits from short-selling.

Harriet Baldwin (Con), a member of the Treasury Select Committee, has asked Rishi Sunak, Chancellor of the Exchequer, to ensure that "the banks were not seen as profiteering from this [coronavirus] situation" following difficulties one of her constituents had faced accessing new business interruption loans with free six-months interest at Lloyds Bank.

Baldwin was speaking the day after Tim Loughton (Con) had asked Sunak to "instil a sense of urgency in the banks" about releasing emergency funding. Loughton raised the case of one of his constituent's, a Natwest business customer, being told it would be April before he could access the government's emergency loans. Sunak told Loughton the loan scheme would be available from next week.

Getting the message

A Natwest spokeswoman said an April timeline was "not something that has ever been communicated to frontline staff to say". Bank staff were telling customers who enquired about the business interruption loan scheme that information about eligibility was available on the website of the British Business Bank and "absolutely, the point about 0% interest is made very clear".

For its part Lloyds said it was 100% committed to providing the support the government announced. "Once we have that clarity we will be able to begin providing customers with the finance they need to navigate through the coming weeks and months. While the final details of the government schemes are finalised, businesses are still able to apply for the fee-free finance facilities we announced earlier this month as part of our £2 billion support for small businesses," a spokeswoman said in an emailed statement.

She declined to explain why branch staff were offering interest-bearing loans to SMEs just days before six-month interest free loans would be accessible. Yesterday, Bailey told journalists that there should be no repeat of the banks' SME lending practices which followed the 2008 financial crisis; some of the fallout remained today, he said. The Business Banking Resolution Scheme is piloting a review of cases brought by SME businesses which claim they were mistreated by their lenders and Dame Linda Dobbs' investigation into what Lloyds' board knew about the HBOS Reading fraud continues.

Suank reiterated to the committee that banks must treat their SME customers fairly.

Supervisors at the Prudential Regulation Authority are in continuous discussion with firms and the regulator has been clear it will use its powers under the Senior Manager and Certification Regime to hold senior managers at banks responsible, if customers cannot access financing.

Short-selling

Bailey issued an unprecedented rebuke to those engaged in short-selling, as there was a further escalation in the number of European market regulators imposing month-long bans on short-selling.

"Anybody who says 'I can make a load of money by shorting' which might not be frankly in the interest of the economy, the interest of the people, just stop doing what you’re doing," Bailey said on March 18.

Short positions accounted for almost £17 billion of stock issued by Britain's biggest 350 listed companies last week. Suggesting that profits from falling share prices could run into billions, said IHS Markit, a data firm.

Regulatory experts have told TRRI in the last week that they thought it highly unlikely the Financial Conduct Authority (FCA) would take pre-emptive action to ban short-selling. Bailey's comments suggest a change of attitude may be underway. Greek, Belgian and Austrian markets authorities used the Article 20 and 24 of the Short Selling Regulation (SSR) (EU) No 236/2012 to introduce month-long short-selling bans on March 19. They join France, Italy and Spain in imposing such bans. Christoph Boschan, chief executive of Wiener Börse, Vienna's stock exchange, suggested there was disagreement between European regulators over the introduction of such measures.

"The [Austrian] national supervisory authority, like us, has urgently sought the extended ban at EU level. Both the impact of COVID-19 (Corona) and the interests of the individual sub-markets of the Union still differ greatly. This is extremely regrettable for us as Europeans. However, as a uniform solution was not enforceable, a national solution is now the right and important step to take," said Boschan, in an emailed statement.

The European Securities and Markets Authority (ESMA) said it was in discussions with Europe's national competent authorities. On Monday, ESMA reduced the level at which firms had to declare their net short positions, as it said there was evidence that short-selling was amplifying current market volatility. ESMA has the power under SSR Article 20 to impose an EU-wide ban on short-selling, which the UK's FCA would also have to implement.

"ESMA, in coordination with NCAs, continues to monitor developments in financial markets as a result of the COVID-19 situation and is prepared to use its powers to ensure financial stability, orderly functioning of EU markets and investor protection," an ESMA spokesman said in an emailed statement.

Complaints Procedure

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