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Dear George

Thank you for your letter of 8 February 2017 about the recent announcement that Lloyds Banking Group ("LBG") will be reviewing customer cases impacted by criminal activities linked to the former Halifax Bank of Scotland ("HBoS") Impaired Asset Office in Reading.

The Financial Conduct Authority (FCA) welcomes the announcement and while we still need to see further detail about how the scheme will operate, we believe that it is an important step for LBG to put in place an appropriate review process.

You have asked the FCA to consider a number of points in our engagement with LBG including:

- Compensation being available to all companies who may have been affected by the events in Reading, not just those who gave evidence in court;
- LBG considers its own culpability when evaluating what compensation is due;
- LBG being public about what happened to expedite claims and ensure it is clear what happened and who was responsible; and
- Building arbitration into the compensation scheme.

Firstly, I would like to clarify the FCA's involvement in the review announced by LBG. The FCA will agree with LBG who should be appointed as the Independent Reviewer and this will take into account the knowledge and skills required to undertake the role. LBG will then agree the scope, methodology and individual case outcomes of the review with the Independent Reviewer.

The FCA will not approve the scope and methodology for review and redress. However, we will maintain a dialogue with LBG as they agree the detail of the scheme with the Independent Reviewer. This largely reflects the limited powers we have to supervise unregulated activities such as commercial lending as our Rules and Principles have limited application against unregulated activities.

Regarding the points you raise, we understand that LBG has committed that all customers affected by the criminal activities will receive redress where appropriate. LBG has committed to review customer cases:

- Referred by the convicted former HBoS employees to Quayside Corporate Services (QCS);
- Involved with or managed by QCS; and
- Where a complaint has been made about the convicted former HBoS employees and/or QCS services as they related to HBoS Impaired Assets based in Reading. This includes new complaints as well as previously raised complaints.

You may already be aware that the FCA is investigating matters in relation to HBoS Reading and certain former HBoS senior managers. I would like to reassure you that in the event that there is evidence of misconduct on behalf of the firm and/or senior managers with regards to HBOS Reading the FCA will take appropriate action.

We understand your concerns about small businesses receiving appropriate compensation and having access to arbitration and I understand that you have received a positive response from Antonio Horta-Osorio who is keen to engage with the APPG.

We identified in the FCA's Mission Statement the problems that smaller businesses face when they have grievances about the conduct of financial services providers and are unable to access the Financial Ombudsman Service. I remain keen that the FCA provides technical help to the APPG to support their work in finding an effective dispute resolution mechanism for smaller business customers.

As you may be aware, we will shortly publish feedback to DP15/7 (Our approach to SMEs as users of financial services). Our feedback will discuss SMEs' access to redress in both the regulated and unregulated space.

Lastly, with respect to your comments about the RBS compensation scheme, we are writing separately to you and the APPG about the concerns that have been raised.

Thank you for raising these issues with me and I look forward to continuing engagement with the APPG and other stakeholders in this area.

Yours Sincerely

Andrew

**Andrew Bailey**  
Chief Executive