

KEVIN HOLLINRAKE MP



HOUSE OF COMMONS

LONDON SW1A 0AA

Nikhil Rathi
Chief Executive Officer
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Sam Woods
Chief Executive Officer
Prudential Regulation Authority
20 Moorgate
London EC2R 6DA

7th October 2022

Dear Mr Rathi and Mr Woods,

Decision of FCA and PRA not to commence enforcement actions in respect of the collapse of HBOS plc.

I am the Co-Chair of the All-Party Parliamentary Group on Fair Business Banking (the “**APPG**”), and this letter is written in my capacity as such. The APPG is a cross-party group with members from the House of Commons and the House of Lords.

I refer to the FCA’s and PRA’s statement dated 26 August 2022, entitled “PRA and FCA conclude investigations into senior managers in relation to the 2008 failure of HBOS plc” (the “**Statement**”). The Statement indicates that the FCA and PRA have now concluded investigations which began in 2016 in response to Andrew Green QC’s November 2015 report into the reasonableness of the scope of the Financial Services Authority’s enforcement investigations in relation to the failure of HBOS (the “**Green Report**”).

The Green Report concluded that the scope of the investigation of the Financial Services Authority (“**FSA**”) in connection with the failure of HBOS was not reasonable. A Treasury Select Committee report from July 2016 reinforced the findings of the Green Report and made a number of criticisms of the FSA (the “**TSC Report**”).

The Statement confirms that “the Authorities gathered more than 2 million documents, interviewed former HBOS senior managers, engaged extensively with the parties, and undertook substantial analysis of contemporaneous documentary evidence considering those senior managers’ roles and responsibilities at HBOS prior to its failure in 2008”. However, the



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Statement concludes that the two authorities have decided that no prohibition proceedings should be commenced against any individuals (the “**Decision**”).

Neither the FCA nor the PRA have provided (as far as can be seen) any reasons for the Decision, nor any detailed information as to process and cost, notwithstanding the stated extent of the investigation.

Many aspects of the failure of HBOS are now known to the public, such that the Decision on its face appears incongruous. That is especially the case given that the FCA’s and PRA’s own report entitled “The failure of HBOS plc” published in November 2015 laid the blame for HBOS’s collapse squarely with HBOS’s senior management (the “**FCA/PRA Report**”).

The FCA/PRA Report stated, among other things, that:

- HBOS’s board failed to instill a culture within the firm that balanced risk and return appropriately.
- HBOS’s executive management were permitted to pursue rapid and uncontrolled growth of the Group’s balance sheet.
- There was a failure by HBOS’s board to challenge effectively executive management in pursuing this course or to ensure adequate mitigating actions.

Moreover, HBOS’s senior management in the run up to and at the time of its collapse overlap with those who managed the bank at the time of the grave frauds committed upon customers in the early 2000s by staff at HBOS’s Reading branch, and HBOS’s failure to investigate this fraud.

In 2017, Dame Linda Dobbs DBE was appointed by Lloyds Banking Group (“**LBG**”) to consider issues relating to HBOS Reading. She is carrying out extensive factual investigations and her report will be published in due course (the “**Dobbs Report**”). Whilst the Dobbs Report will focus on whether the issues were investigated and appropriately reported to authorities at the time by LBG, following its acquisition of HBOS, it seems probable that the Dobbs Report will include important factual material concerning HBOS’s senior management and governance.

One option available to the FCA and PRA, which apparently has not been adopted, would have been to defer the Decision until the publication of the Dobbs Report. That would have enabled the authorities to consider whether matters raised by the Dobbs Report in respect of HBOS’s senior management should also inform a decision whether or not to commence prohibition proceedings against relevant individuals.



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Given the public interest in and very wide-reaching effects of the mismanagement of HBOS, including in connection with the £20 billion tax-payer bail-out of LBG in 2008, and the gravity of the fraud at HBOS Reading, the APPG considers that the FCA and PRA should publish the reasons for the Decision.

We ask, in particular, the FCA and PRA to set out in writing:

1. The date (or dates) when the Decision was made.
2. The reasons for the Decision.
3. The persons who made it.
4. The factual materials considered by those persons.
5. Whether delaying the Decision to consider the findings of Dame Linda Dobbs DBE was considered, and if so, to what extent.
6. The process for and costs of the investigations that led to the Decision.

Given the gravity of HBOS's mismanagement, the Green, TSC and FCA/PRA Reports and the resource that the FCA and PRA indicate in the Statement has been dedicated to their investigations, we have grave concerns that the FCA and PRA are not taking any enforcement action and believe that the public will share those concerns.

We consider in the circumstances that the FCA and PRA have a duty to give reasons in respect of the Decision and we therefore ask that the information and documents above, showing why the Decision was made and the materials relevant to it, are disclosed to the fullest extent practicable. Whilst the authorities may contend that they are unable to provide certain materials because of their duty of confidentiality under section 348 of the Financial Services and Markets Act 2000, we consider that disclosure can be made with relevant passages redacted and/or subject to a specific confidentiality agreement with the APPG.

Should the FCA and PRA decline to do so, the APPG is keeping under consideration the filing of a judicial review application to quash such a decision not to give reasons. Please note that we will be placing this letter, and any reply, in the public domain. We ask that you acknowledge receipt of this letter by return and send a full substantive response within 14 days.

We look forward to hearing from you.

Yours sincerely,

A handwritten signature in black ink that reads "Kevin Hollinrake".

Kevin Hollinrake MP

Co-Chair, APPG on Fair Business Banking

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Cc

Andrew Griffith MP – Financial Secretary to the Treasury and City Minister
Treasury Select Committee

Rt Hon Mel Stride MP – Chair, Treasury Select Committee

Rushanara Ali MP – Member, Treasury Select Committee

Harriett Baldwin MP – Member, Treasury Select Committee

Anthony Browne MP – Member, Treasury Select Committee

Gareth Davies MP – Member, Treasury Select Committee

Dame Angela Eagle MP – Member, Treasury Select Committee

Emma Hardy MP – Member, Treasury Select Committee

Julie Marson MP – Member, Treasury Select Committee

Siobhain McDonagh MP – Member, Treasury Select Committee

Alison Thewliss MP – Member, Treasury Select Committee