

Bank of England

HBOS Report Press Conference

19th November 2015

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Sarah Bailey:

Good afternoon, everyone, and welcome to the HBOS Report press conference. To introduce the panel, to my left I have Sir Brian Pomeroy, who's the Senior Independent Director at the Financial Conduct Authority. To my far right I have Charles Randell, Non-executive Director of the PRA Board. And to my immediate right, Andrew Bailey, Deputy Governor of the Bank of England. Andrew.

Andrew Bailey:

Thank you, and good afternoon. So today, as you know, the two regulators - the Prudential Regulation Authority and the Financial Conduct Authority - have published the review into the failure of HBOS. The review seeks to tell the story of why HBOS failed and examines responsibility for its failure.

The review looks at the events from January 2005 to the point of failure. We take that point of failure as the day that HBOS needed to request emergency liquidity assistance from the Bank of England, as it could no longer meet its liabilities as they fell due. That day was 1st October 2008.

This review does not examine the events following this date, and it does not offer a view of the merger between Lloyds and HBOS.

The failure of HBOS is an interesting story because it is the story of the failure of a bank that did not undertake complicated activity or so-called racy investment banking. HBOS was at root a simple bank that nonetheless managed to create a big problem.

The review sets out, against the backdrop of almost uninterrupted economic growth over a long period and the rapid development of financial markets, the story of an institution that became unsustainable for its poor risk management in respect of the credit risk on the assets side of its balance sheet and in respect of the vulnerability of its funding on the liabilities side.

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HBOS's flawed strategy led to a business model that was excessively vulnerable to an economic downturn and a dislocation in wholesale funding markets.

The review documents particular and dominating cases of inappropriate risk taking in the management of credit risk in the Corporate Division, the expansion overseas without regard to the risks involved and funding the assets of the bank.

The strategy of HBOS put the growth of the bank above these considerations until it was too late and impossible to change course.

So who was to blame for the failure of HBOS? Ultimately the blame lies at the feet of the HBOS Board and senior management. They failed to set an appropriate strategy and also failed to challenge the flawed business model that placed inappropriate reliance on continuous growth without due regard to the risks involved.

We do not expect senior management of banks to have perfect foresight, but we do expect them to have strategies that can react and adapt to changes to the economic environment.

Now this is not to say that the regulator at the time, the Financial Services Authority, did not play an important role. The so-called light touch regulatory approach, combined with inadequate international standards of prudential regulation - both capital and liquidity, led to a situation where supervisors did not have the tools that they needed to supervise the bank properly.

Flaws in the FSA supervisory approach meant the regulator did not appreciate the full extent of the risks HBOS was

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running and did not take sufficient steps to intervene before it was too late.

It is important to point out that both the strategy and operation of HBOS, and its supervision by the FSA, were creatures of the time, and much has changed since that time.

I want now to turn to a couple of points about the process of compiling the Report. Much of the commentary on this Review has focused on the length of time that it has taken to publish it, and so it would be remiss of me not to say a few words on this, I think.

It did not begin until September 2012, following the conclusion of enforcement action against Peter Cummings, the former CEO of the HBOS Corporate Division. The Review Team had to examine over 200,000 documents in order to write the Report and 66 people were interviewed. This took around 18 months.

We then had to go through the process of Maxwellisation, which is a legal requirement to allow parties to comment on relevant sections. This took another 18 months.

Now there will be, I know, some who say that that is too long. But I would say in response to that that we had the choice to water the Report down, possibly to get it through Maxwellisation more quickly, or we could choose to stick to our guns and publish a true reflection of what we believe happened. From the outset, we chose the latter course.

The Treasury Select Committee appointed Iain Cornish and Stuart Bernau as independent reviewers to examine and challenge the process of putting the Review together, and I'm grateful to Iain and Stuart for the challenge that they provided throughout the review process.

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In addition to the Report that I've already mentioned, today we have also published Andrew Green QC's Report into the FSA's enforcement actions following the failure of HBOS. This, I should stress, is an independent assessment of the FSA's enforcement actions.

Among other recommendations, Andrew Green recommends that the regulators should consider whether any former senior managers of HBOS should be the subject of an enforcement investigation, with a view to prohibition proceedings.

We accept Andrew Green's recommendation and will review whether any enforcement actions should and can be taken against any members of HBOS's Board and senior management. We will do this rapidly, but as you will understand, there will be no running commentary on individuals during this period.

One further point of process. There is quite a bit of talk about the so-called six-year window to take action that could lead to consequences beyond prohibition. The six-year window was introduced in legislation last year. It is not retrospective, so it is not a relevant issue in this case.

One final point, in conclusion, before we move on to questions. Rightly, a lot of the focus in these Reports is on who did and did not do what. And that's appropriate in understanding responsibility, which is at the heart of the new Senior Managers and Certification regime.

But there is an important message on which I want to conclude. A lot has been done since the height of the financial crisis to repair the faults that caused it. The actions taken have been essential and the story of the failure of HBOS in my view illustrates why.

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Now there are already some siren voices calling for a rolling back of at least some of these actions. As I said, if you were at the Bank of England's Open Forum last week, many of the actions taken have had their intended consequences. Some actions have not had their intended consequences. I mentioned a few last week.

And where those consequences are unintended - and I mentioned examples like the bonus cap, re-setting of the sterling deposit protection limit, some elements of solvency II - looking across the broader landscape now. Where unintended and unwanted consequences emerge, we should deal with them in a timely manner.

But the story of HBOS is a salutatory reminder of the bad consequences of not having consistent and transparent objectives and standards of regulation. Thank you.

Sarah Bailey: So we'll open for questions now. We've got about 50 minutes to do so. When I call on you, if you could give your name, organisation and try and limit yourself to one question until we've been round and then we'll see if we've got time to go again. So lets start with Caroline.

Caroline Binham: The upshot of this lengthy and costly investigation seems to be that there might be yet another lengthy and costly investigation ...

Andrew Bailey: I'm sorry, Caroline, there's something with the microphone ...

Caroline: Yes, I'll just talk ...

Andrew Bailey: Sorry about that. It's easier without as I can hear you now.

Caroline: The upshot of this costly and lengthy investigation seems to be that there will be yet another costly and lengthy

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investigation. Do you think the public will be happy with that outcome?

Andrew Bailey:

Well, it is not the intention, as I said in the comments, to have a lengthy investigation. We will do this further piece of work as soon as possible. And by that I do not mean yet years -

Caroline Binham:

Any investigation will take 18 months or two years, if one is deemed appropriate.

Andrew Bailey:

Well, there'll have to be due process. And I think the thing you should really go to there is Andrew Green's Report, because Andrew Green's Report really addresses the central question to that, which is - should or should not these review actions and investigation actions have been taken if you go back to 2009? Andrew Green, as you'll see, reaches a very clear conclusion on that. He's done an independent review, but he's reached a very clear conclusion on that.

We have come along obviously and produced the Report, and the Report of course addresses the question of - why did HBOS fail? That was the question about responsibility.

We will now, as I said, based on Andrew Green's recommendation, do the further work as soon as possible. It is not the intention to have another process lasting years, I can tell you. But I think the gravity of Andrew Green's recommendation is such that we have to do it - clearly.

Jill Treanor, the Guardian:

Why do you need to do the review of whether or not to do enforcement action [inaudible patch] by your own admission since [inaudible patch] ...2012 surely you must know...

Andrew Bailey:

The simple reason for that, Jill, is the review that we've done has addressed the question, which is probably best put into the context of the Senior Managers Regime, which is - why

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did it fail and who was responsible? Because that is a) the question we were asked to review, and b) it seems to me to be the important question.

As you know, I'm sure, from the existing - we're still of course in the pre-Senior Managers regime world, and the Approved Persons Regime, as I've said a number of times in commenting on that regime, the test is culpability of the individual, not the question of responsibility.

So there has to be now - I mean, we obviously have the body of evidence. I mean, the good news, and it goes back to Caroline's question, is the volume of evidence exists. It has to be examined from the point of view of the question of culpability, which by the way is the question, as I said, that Andrew Green said, you know, to the extent that it wasn't done back in 2009, it should have been done.

So that's the point. I mean, there's this point about now taking the body of evidence and looking at the culpability test, which is at the centre of the Approved Person's Regime - is there a case?

Joel Hills:

Sorry, Andrew, just on that point. You say rapidly - you'll come to a rapid conclusion. What does that mean? Are you going to set a deadline? Can you also spell out what options are open to you in terms of prohibition?

Andrew Bailey:

Well, the work to review the evidence will be done ASAP.

Joel Hills:

By Christmas, months, years?

Andrew Bailey:

It will certainly - I'm not an enforcement lawyer, but it will certainly not be more than months.

Joel Hills:

By the end of the year?

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- Andrew Bailey: That's not - that's only just over a month, if you don't mind me saying so. And that will lead to the conclusion.
- Now, as we've made very clear, and as Andrew Green made clear, the issue is one of prohibition.
- Joe Hills: And absolutely - just to be crystal clear, there cannot be any fines?
- Andrew Bailey: Yes.
- Joel Hills: Oh, I'm sorry.
- Andrew Bailey: Yes, yes.
- Tim Wallace, The Telegraph: On a different topic ...
- Andrew Bailey: It's something about being in the front row. I'm sorry about this - it's a penalty for sitting in the front row.
- Tim Wallace, The Telegraph: Are you happy you definitely have all the powers and resources to ensure that this doesn't happen again and if it does happen again, people don't get away with it?
- Andrew Bailey: Right, so the question is - are we happy that we've got all the powers and resources to ensure that this doesn't happen again?
- Well, as you know, the Senior Managers Regime is being introduced. Obviously, we've had a whole set of legislation introduced since the crisis, which has strengthened the regulatory regime substantially. The approach to supervision has been completely overhauled in the new regime that's been introduced, and critically the Senior Managers Regime - Senior Managers Certification Regime - will introduce the regime which shifts the burden from this question of - can we prove that an individual senior manager was personally

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culpable to what I think is a much more important question, which is - were they responsible? Did the problem happen within their area of responsibility? And that of course is the regime that will be introduced by next March.

Tim Wallace, The Telegraph: Do you have the resources to enforce all of this as well ... ?

Andrew Bailey: Do we have the resources to enforce all of this?

Between the PRA and the FCA, we have quite substantial enforcement resources. The FCA has rather more enforcement resources than PRA, because it's in the nature of conduct regulation that enforcement is a bigger tool in that world.

We - I would say, however, that we are both reviewing the question of whether we have a set of resources that are necessary for the new world of the Senior Managers Regime - that's obviously an open question because we're introducing the regime at the moment.

Not because - you know I don't want to give you the impression there's going to be a sudden sort of vast multiplication of enforcement, but certainly on the PRA side, I mean, we have done very few enforcement cases up to now, so obviously our resources are much smaller. So we are looking at that question. Yes, that's a resource question, as you rightly say.

Tim Wallace, The Telegraph: What sort of timescale?

Andrew Bailey: Sorry for the resources? Oh well, the regime's being introduced next March, so that really dictates the timescale.

Katherine Griffiths, The Times: I just wanted to ask a bit more about sanctions, if I could. Just on the former HBOS people, could you just sort of spell out the process for what might happen in terms of BIS

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[inaudible] BIS has the power to actually [inaudible]. Are there other sanctions that BIS can impose?

Andrew Bailey:

Yes, I think that's a good question. So Katherine's question is about the enforcement powers but also referring to the Department of Business as well.

So there are two sets of enforcement powers. There's the ones that the FCA or PRA can use - those are in respect of Approved Persons. Then there's a second Companies Act regime, which is in respect of directors. I think that's the one that you're referring to.

So I can tell you that today we have sent the Report to the Secretary of State for Business. The Directors Regime is of course entirely within their body of operation, not ours. So we have sent it to the Secretary of State, and that will be obviously over to them to then take whatever action they take.

Katherine Griffiths, The Times:

And the possibility is that someone who isn't necessarily in a financial firm, but in another business role, could be ...

Andrew Bailey:

Well, their regime is around company directors, so you're right, that is not a regime that is limited to financial institutions. It's a Companies Act regime in respect of directors - as I understand it. I don't pretend to be an expert on that regime.

Katherine Griffiths, The Times:

And the second part of my question then is - in terms of people who were on the regulatory side, what exactly are the potential sanctions that could be taken against them. Judicial review? What other things ...

Andrew Bailey:

So what sanctions could be taken against the people who were in HBOS?

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Katherine Griffiths, The Times: No, I'm talking about people like John Tiner or Margaret Cole or those sorts of people.

Andrew Bailey: Well, as you'll understand, those people were not in Approved Persons roles when they were at the FSA, obviously the FSA is not part of that.

It obviously therefore depends on what roles, if any, they are in today. And you'll understand that they've all left the regulators now.

Obviously, I can really only speak from the point of view of the FCA and the PRA, which is that to the extent, again, that they are in roles which are relevant, then the approval - which is all to do with fitness and properness of the role - is continuous.

I think it's very important to make this point, because sometimes I think the Approved Persons Regime - and I think the Treasury Select Committee have commented on this in the past - is seen as a sort of gateway and that once you're through it, that's it. I mean, it is actually a continuous requirement, and that will become even more so with the Senior Managers Regime.

So all relevant information can be taken into account at any point in time.

Charles Walmsley, Citywire: So just to clarify there, could action be taken against those names in Green's Report from the regulator?

Andrew Bailey: I may have got this wrong, because I'm sorry, it's really coming through very badly. Were you saying - what action will be taken against those named in Green's Report?

Charles Walmsley, Citywire: Yeah, could actually be taken against the likes of Tiner and Cole and so on?

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Andrew Bailey: Well, as I said, they are not - by virtue of holding those roles, they're not approved persons, so - and they've all left the regulators. So that - I think it's the same answer as I gave to the previous question, which is - to the extent that they are in roles - which, by the way, would be true I think of both regimes, although I talk with less experience of the Directors Regime - then all information is relevant to the assessment of their ongoing holding of those roles.

Aimee Donnellan – Sunday Times You mentioned about HBOS and the FSA that they were both creatures of the time. But it seemed like, looking at some of the comments about the FSA knowing that you could increase capital ...

Aimee Donnellan – Sunday Times: So I'm wondering basically, when you talk about the FSA [Inaudible] but then also you say - or it says in the Report that the FSA did know that they could increase capital and make HBOS raise more capital [inaudible] criticised [inaudible] too strong, too hard and anti-competitive in the UK. So it's almost like they knew exactly what to do, but they chose not to do it. Is that not a bit worse that betting on creature of the time, they were perfectly aware of what to do ...

Andrew Bailey: So Amy's question is - describing the FSA as a creature of the time, that there are things that they could have done and that they didn't appear to do. So does it really go beyond - I think you're essentially saying the way I described creatures of the time to be a broader point. By the way, if I've misconstrued you, do shout at me.

And I think the answer to that is - I mean, there are two parts to it, as you rightly say. So this concept of light touch which, by the way, very few people I think actually use the phrase, but it is now obviously commonly used as a tag to describe the period.

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And I think you're right that it goes to two things. It goes to the, in a sense, the policy and framework of supervision, or the approach to supervision. But I think you're right that it also goes to the question of - even if you had more limited tools at your disposal than you would have done, there was - as part of the approach to supervision - and let me distinguish this from the decisions that relatively junior staff were taking, because they were not taking these decisions - to be clear. But as part of the approach to supervision, yes, there is evidence of what I might call a sort of circumscribed use of tools of the day.

Nils Pratley, The Guardian:

Many people will find it staggering that the process of Maxwellisation can take as long as the compilation of the Report, the first draft of the Report, in the first place. It's the law, as you said, in your opening remarks. Is it a law that's working well and working as parliament intended? And is it helping you as a regulator?

Charles Randell:

As a former lawyer, perhaps I can have a go at that.

The requirement of Maxwellisation is not really a parliamentary requirement; it's a requirement that comes from courts' decisions, reflecting the basic principle that, if somebody's going to be criticised in a process like this, it's only fair that they should have the chance to put their side of the story.

Just coming back to Andrew's two periods of 18 months, I would point out that the second period of 18 months did not just involve Maxwellisation. There were a series of other assurance processes going on in that period, including interaction with the independent reviewers appointed by the Treasury Committee. So I wouldn't like you to get the impression that the entirety of that 18 months the only thing that was going on was Maxwellisation.

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But I think it is a good question to ask. Has this become a burden to the prompt production of lessons-learned reports? It's not something about which we can do anything; this is the law. And we did what we were at all times advised we should do. But it's a reasonable question to ask.

I'm afraid I don't have an answer - it goes rather beyond our terms of reference.

Andrew Bailey:

I mean, I think if I could add a bit of flavour. I think most of us, or perhaps all of us involved in the Report have very mixed view of it. Charles is absolutely right in his description of it. It is a process by which, obviously, those who are going to be directly commented upon or criticised, have, if you like, a right of reply; they have a right to raise issues, to point to new evidence.

And just to give you some figures, I mean, if it helps. The first phase of Maxwellisation, we Maxwellised I think 82 parties and we got back 1,425 representations. Each of those then had to be obviously reviewed. We were then advised that for a certain number there had to be a second phase because further information had come to light and the Report was amended.

And we did a limited phase two - I think it was 36 parties, and we got 227 representations back, and then that was it.

But I think the mixed feelings, to be frank with you, is - you know, it's very important in society that, you know, the process is seen to be done fairly. I think it has. On the other hand, I can tell you - I mean, many of you have written stories about - why has it taken this long? I can tell you, if you're on the other side of this Report, you know, we had no desire for it to take this long. But also, we wanted - justice has to be done. And also, as I said in my introductory

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comments, I'm afraid it was never the case that we were going to water the Report down to get it done quickly.

Charles Randell or
Sir Brian Pomeroy:

And if I can just add to Andrew, you know, a lot of the comments around Maxwellisation have been to the effect of - this is a process where powerful people get to water down the Report. Let me be absolutely clear about this. That was not our approach. People made representations. They made them very, very strongly in some cases, but that doesn't mean we changed the Report.

Nils Pratley, The Guardian:

Well, how many of those representations actually resulted in changes of those 1,425?

Andrew Bailey:

I don't have the precise figure, but it's not - it's not a very large percentage. Quite a few of them were quite repetitive as well, and obviously if you wrote us an essay in response, saying - I don't like Maxwellisation, and didn't make any substantive points or you wrote us an essay of a more general nature and didn't make a substantive point, that did not lead to an amendment to the Report. So we got a few of those, frankly, as well.

Mark Kleinman, Sky News:

Andrew, you mentioned the referral of the Report to the Secretary of State for Business. What's your understanding of the outcome of his predecessor's investigation [inaudible] your [inaudible] Report which is [inaudible] 2011 [inaudible]?

Andrew Bailey:

I'm afraid, Mark, that's a very good question, which you'll have to ask the Department for Business.

Mark Kleinman, Sky News:

You must be able to shed some light ...

Andrew Bailey:

No, I can't, I'm afraid. I believe it's a matter of public record that it was referred to the Scottish law authorities, and I

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honestly cannot tell you more than that, because we're not responsible for that process.

Mark Kleinman, Sky News:

And a follow-up question, if I can. Running through this entire Report is evidence of pressure that was applied by HBOS executives to their external auditors. How concerning, when you were in the process of putting together this Report, was that evident? Are you satisfied that no such pressure is applied by major banks that exist today, and what sanctions would you like to see in place for those banks which do apply some pressure?

Andrew Bailey:

Well, that's a really good question. I mean, the first part of the question - I mean, there's actually a section in the Report which you've probably already read, but it's around about paragraph sort of 785. And it's a particularly - mirth all round the room - that's quite a low number in this Report in terms of paragraph numbers, but -

That really addresses a particularly important question which is around the accounts, towards the point of failure, when obviously the impairment charge issue became much larger.

Now you raise a very good question about the broader issue of auditors, so if you don't mind - I mean, I'll give you a bit of a reflection on this, having been around rather a long time.

So I was involved in bank supervision in the old Bank of England regime in the 1980s, and there was a very clear provision in the legislation then, which I know Lord Lawson always takes personal responsibility for - and I think probably rightly actually, broadly - which required direct contact between the Bank of England, as the supervisor, and the auditor. And, you know, you had both direct contacts bilaterally without the firm involved, and then there was also provision for three-way thing as well.

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I have to say to you that one of the interesting things when I - I then took 17 years away from being involved in this business - doing other things in the building behind us. When I came back to it, I was very surprised by the breakdown of contact between the FSA and auditors. This was one of the, for me, really striking things. And by the way, it was never the intention to recreate the good old Bank of England regime in all its respects, because that had its own issues. But I think the auditors point was one of the stronger points in that regime.

And so we set about - and indeed, it was put back into the legislation, not least of all by Nigel Lawson again, actually, that there is a requirement for formal engagement between us as the regulator and the auditor. And again, that's bilateral, but it's also the three-way thing as well.

And that I think is crucial to your question because we need to know, you know, how the audit process is being conducted, and we need to make it quite clear to firms that we will have a line of contact with the auditors, which does not get intermediated through the firm. So it's a good question.

Kamal Ahmed, BBC:

Andrew, you talk about sustained political emphasis during the financial crisis about the light touch. Do you think that the FSA felt itself to be under political pressure from the Labour government not to demand more tools and more powers, and to act in a more intrusive and aggressive way against banks?

Andrew Bailey:

Well, I think there was a broad - sorry the Kamal's question, to put it to the record, really relates to the question - did the FSA feel that it was under direct pressure from the government of the day not to ask for more tools and you could extend that obviously to the conduct of supervision?

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I think there was a - we draw this point out in the Report - I think there was a broad culture of the time which had the characteristics of, you know, many years of continuous economic growth; many years of continuously - well, more or less continuously rising asset prices - that's not quite as true - very rapid expansion of bank balance sheets, therefore very rapid expansion of the broader prominence of banks - and of bankers, of course, as well - that I think there was a broader culture that this was all a very good thing. And, you know, don't sort of kill the goose that lays the golden egg, as it were.

And I think the broad culture then embraced the regulator as well. I think it embraced the regulator both - as you rightly say - in terms of the formal powers and whether there was any sort of leeway to expand those powers, but also in how they went about their business, which really goes to Amy's question earlier.

And I think that that was the culture of the day, and it's one of the things that, you know, people sometimes ask me about the new regime - what do I sort of - you know, what's my biggest objective with the new regime? And that is that we should have a system of regulation which delivers sort of consistent regulation across what I might call a political business cycle.

Kamal Ahmed, BBC:

Was it a consensus which was shared and promoted by government?

Andrew Bailey:

I think there was a broad consensus, yes.

Ros Snowden, Yorkshire Post:

I was just wondering - do you feel that prohibition is a bit toothless? I'm writing for a region who wants to see Halifax Bank of Scotland brought to its knees. Do you not think they might say - is this all you're coming up with - Andy Hornby can't get another job in a bank? I mean, don't you think

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maybe things could be a bit stronger ... do you feel disappointment that that's the ...

Andrew Bailey:

Well, let me say two things. Andrew Green makes the point that of course the opportunity was essentially missed, if that was the case. Now we've got to go back to that and see if there is evidence in there which leads to the prohibition.

The second thing really goes back to the question which I can't answer because I'm not an expert in the regime. I mean, there is this second avenue which is a question of directors' responsibilities.

Now I, as I say, because I'm going to sound as if I've been around far too long now, actually, I do remember back to the failure of Barings, actually. And one of the consequences of the failure of Barings is that the Companies Act disqualification tools were used. So there is this second line of avenue, but it's not for us to say what happens there; that's for the Department of Business.

Ros Snowden, Yorkshire Post:

So is there now a possibility that Hornby and the others could be struck off ... ?

Andrew Bailey:

Well, that's a question, as I say, you'd have to direct to the Department for Business.

Caroline Binham, Financial Times:

So do you feel now that you're able to have regulation through the cycle without political interference?

Caroline Binham, Financial Times:

[Repeats question.] And very quick second question, if I may. The Northern Rock Report in 2008, this Report, the Davis Report last year - they all found shoddy record keeping, improper communications, failure to communicate between teams and the regulator. What confidence do we have that now the regulators have learnt their lessons of yet another report that has all the same failings?

Andrew Bailey:

Right, so that's two questions.

First one is - do we feel confident now that we've got a regime that delivers more consistent regulation across what I might call - the cycle.

The second one is - how confident are we in the standards of record keeping today?

I think on the first question - I mean, this is obviously a very important question. I think the things that give me most comfort in the regime today are - one is we've got clear objectives and secondly we've got much greater transparency. I mean, we've pushed much greater transparency. The Treasury Select Committee have also pushed it - rightly, in my view.

I can tell you - drawing on history again a bit - that it's not that long ago there was an environment in which we never talked about supervision in public because it was all just too confidential.

Now, you know, quite a lot of it is confidential, obviously, because it involves commercially confidential things. But if we never talk about it in public, and if there isn't accountability in public to the Treasury Select Committee, then I think two things happen. It allows some of the things that we saw in the past to get embedded in the system and not be challenged. And it doesn't allow the supervisors to actually have their opportunity.

Because accountability is a two-way street. I mean, it always sounds like it's all utterly painful for us, but it's not actually. It's an opportunity for us to explain what we're doing. And you can frankly all hold us to account. Now that's a good thing both ways.

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So I'm much more positive now because I think it's a much more transparent system and it, you know, if that sort of thing was going on, I think the chance of it being spotted would be greater.

The second question you rightly raise is about the standards of record keeping. Well, you know we are - it is something that a lot of work has been done on. You have to keep emphasising it, as I say, as someone who obviously runs the regulator. Standards are much better. I think the things that Andrew Green observes about, you know, the minutes of the Minutes of the FSA execs go to things that the main Report says about some of the Board minutes of HBOS, I don't think you would see today.

But you can never let your guard down on this question, because it's a perennial question. Standards have to be kept up and you're right. But it's - it very much feels like a different world in that respect today.

Sir Brian Pomeroy:

Can I just say, since you mention Davis, which of course was the FCA, since Davis the record keeping is being taken very seriously. Davis was quite recent; it doesn't go back anything like as far as some of the events we've been talking about this morning. Record keeping of committees and decision making bodies at all levels is being taken very seriously indeed.

Jill Treanor, the Guardian:

When you were finishing your introductory remarks, you talked about siren voices trying to push back into regulatory change. Nowhere in your Report though I think do you mention whether or not HBOS would have fared better if the ring-fencing rules had been in place. Where would ring-fencing have affected anything?

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Andrew Bailey:

Well, interesting - that's a very good question, because of course actually, you know, most of HBOS would have been inside the ring-fence. And I think the moral of the story is the ring-fence is not there to create a risk-free bank and a risky bank. You know, the ring-fence is there to improve resilience and resolution between wholesale and investment banking on the one hand and retail banking on the other hand.

But if you look at the history of this country, and HBOS is obviously a big part of that, but it's not the only part. I mean, you can look at Northern Rock and Bradford & Bingley for instance, it is perfectly possible to have problems in a ring-fenced bank. I'm afraid the history of this country illustrates that.

But that's not the purpose of the ring-fence. It doesn't contradict the purpose of the ring-fence.

Suzi Ring, Bloomberg:

Obviously the important action was [inaudible] slightly haphazard attitude towards who fell within the scope of [inaudible] and the ones who didn't. And that's an approach that doesn't seem to have disappeared with things like LIBOR. I know there are criminal investigations going on because of hold-up proceedings. But do you feel assured that we're not going to see the same kind of haphazard [inaudible] retrospectively down the line with things like LIBOR and FX that only [inaudible]?

Sir Brian Pomeroy:

What I can say is that, since the times we've been talking about this morning, enforcement processes at the FCA have changed dramatically. You'll probably be aware that at the end of last year, there was a Treasury Report on standards of enforcement across the regulators, which was basically pretty positive about the FCA, but it did lead to some improvements; for example, we've now published our referral criteria.

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One of the criticisms in Andrew Green's Report is that there was insufficient dialogue between those referring, that is to say the supervision departments, and the enforcers. There is now much greater dialogue; there is now much greater regular reporting of the process of enforcement cases to the Chief Executive, in our case the Acting Chief Executive. And the other important change is, which I think Andrew's already mentioned, is that the limitation period is now six years rather than three years, as it was in the case that we've been talking about this morning.

Andrew Bailey:

The other thing I would observe, actually, and as I say we're all commenting on Andrew Green's report because we're not responsible for it. But I think he makes the - if you read his Report, it traces an evolution of enforcement in the FSA where the later part the decisions, he says, where the right decisions were taken.

Nils Pratley, The Guardian:

If the FSA could flunk its enforcement enquiry on HBOS, which is the gist of Andrew Green's Report, should we have any confidence in their previous conclusions about Royal Bank of Scotland?

Andrew Bailey:

I don't think any of us can comment on that. No involvement in it. And let me emphasise that we are taking the next stage in this work, which is the one that Andrew Green's recommended. We can't comment on any broader issues.

Katherine Griffiths, The Times:

Two issues I'm trying to grapple with. One is - we know what the remit of this piece of work was, but when one thinks about people who've lost their job, people who've lost their savings, all of the ramifications of what happened with the failure of HBOS, one can see a possible course of action for those former senior managers and directors. But again, I want to come back to the point about the role played by senior regulators, and obviously it was against a backdrop of

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crisis in terms of decisions made by that enforcement. But looking back to how the bank was actually regulated, is this where it stops or is there now a chance for some sort of lookback to whether those people in key decision-making roles, who were recklessly negligent or whatever the key words are? That's my first question.

And the second question is around the rights issue and around the litigation about the deal. I'm sorry I haven't found all the right bits in the Report, but can you sort of talk a bit about what the ramifications could be for that litigation?

Andrew Bailey:

Well, the first question relates again to the senior regulators of the day. Again, I have to sort of repeat the answer I gave before, which is of course they were not under the Approved Persons regime of the day, so there isn't a formal sanction, in that sense. And it has not been our task to argue for recklessness; that's not been part of it. So I don't think I can go beyond the answer I gave before.

Of course, as I said before, insofar as they are occupying approved positions today, it is a continuous process and any relevant information is taken into account.

I think on the question of the rights issue and the litigation, I think you have to be quite clear on this. I mean, clearly this Report is now a matter of public record; clearly it is now available to anybody who was involved in any action whatsoever, but it's down to them to decide what to make of it.

Sarah Bailey:

Okay. If that's everything -

Andrew Bailey:

Thank you very much.

Sarah Bailey:

Thank you all for coming.

END