

# UK regulator abandons banking inquiry

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8 January 2016

The UK's Financial Conduct Authority (FCA) took the opportunity of New Year's Eve to bury the announcement that it had abandoned an investigation into banking culture launched in early 2015.

Instead of a wide-ranging "thematic review," the regulator will now work on a bank-by-bank basis to address "remuneration, appraisal and promotion decisions" and ensure the "delivery of cultural change."

Reports suggest that the FCA has also dropped investigations into the incentives banks give their staff to sell financial products, and the use of customer information by insurance companies.

Percival Stanion, a top strategist at Pictet Asset Management, told the BBC that there was "definitely a shift in tone towards the banks." It was, he said, "no coincidence" that the FCA had ditched the investigation after Europe's largest bank, HSBC, threatened to quit the City of London complaining of too much regulation. Standard Chartered has made similar noises.

HSBC was one of the institutions whose greed and lawlessness helped plunge the world into an economic crisis in 2008 from which it has never recovered, and launched a wave of austerity globally involving the slashing of workers jobs, wages and social benefits.

Following the announcement, Labour Party Shadow Chancellor John McDonnell said that the decision of the FCA to cancel its inquiry "suggests the FCA is bending to pressure from the Treasury to return to the sort of light-touch regulatory regime that led to the 2007-2008 banking crisis." Chancellor George Osborne "cannot stay silent on this issue," he said, adding, "It's time he used his influence to keep this review going."

McDonnell knows very well that this will not happen. Osborne has not been silent, but has rather used his influence to scuttle the review and bring the short-lived era of "banker bashing" to an end.

All the sanctimonious pledges made by the leaders of the major capitalist powers and top bankers in the immediate aftermath of the 2008 collapse to clean up the financial system have come to nothing. The sole concern of the British ruling elite is to ensure that London maintains its place as the world's most competitive financial centre. According to research by the Z/Yen Group, the City overtook New York last year, coming first in all categories.

Britain's determination was expressed last March, when the government, with "virtually no consultation with the US" and at the risk of sparking a rift with the Obama administration, became a founding member of the \$50 billion China-backed Asian Infrastructure Investment Bank. As the *Financial Times* noted, "It has been keen to establish the City of London as a platform for overseas business in the Chinese currency as it starts to play a bigger role in the global economy."

When the Conservatives returned to power last May to form a majority government, a major concern of the new administration and its big business backers was to roll back the limited measures taken against the banks.

Conservative MP Mark Garnier, who sits on the Treasury Select Committee (and now sheds crocodile tears over the FCA's decision) declared, "Bank bashing is something we've got to move on from ... I think we've done enough."

"Banker bashing" was only ever an attempt to deflect public anger away from the huge bank bailouts and the impact it would have on public spending on social services.

In addition, former Labour Prime Minister Gordon Brown and his then Chancellor Alistair Darling made muted criticisms of the multi-million pound bonuses paid to bankers. This was in order to ward off criticism of the Labour government's own role in precipitating the crisis with the "light-touch" regulation (or non-regulation) that facilitated the dramatic expansion of

financial speculation.

As more scandals emerged, including the rigging of the Libor interest rate and the foreign exchange (Forex) market, the replacement of the discredited regulator, the Financial Services Authority, by the FCA in 2012 was supposed to instill ethical standards in the U.K.'s financial sector and "avoid a repeat of the financial crisis." New FCA chief executive Martin Wheatley declared, "I'll shoot first, ask questions later."

A Parliamentary Commission on Banking Standards was established in 2012, "to conduct an inquiry into professional standards and culture in the UK banking sector and to make recommendations for legislative and other action." The following year, it published "Changing banking for good", which revealed "shocking and widespread malpractice" across the banking industry and called for "the radical reform required to improve standards."

The Commission's main stated concern was, "The UK's competitiveness will be threatened in the long-term by blindness to the dangers associated with poor banking standards and culture." Its report recorded how there was virtually unanimous agreement between politicians, regulators, banks and companies that "there are cultural changes that we should make across banking" and "if they leave the underlying causes of cultural malaise intact, they are ultimately doomed to failure."

However, the report warned, "Faced with proposals for solutions that match the depth and severity of the crisis in banking standards and culture, politicians will be given many reasons to shy away from the necessary reforms."

It did not take long for this to prove true. The publication of the report into the "destruction" of the U.K.'s biggest mortgage lender, Halifax-Bank of Scotland (HBOS), was delayed by three years and only saw the light of day in November 2015. The FCA is yet to decide if the bank's top 10 executives it blamed for the collapse are to suffer a ban on working in the financial sector.

The FCA launched proceedings with foreign regulators against some of the world's largest banks involved in the Libor and Forex frauds. In the end, the latter paid a fine amounting to a small portion of their annual earnings. In exchange, the regulators have dropped their charges against the top executives and the

banks.

Immediately following the Conservative re-election, Osborne, speaking at the Mansion House, laid out plans for a "new settlement" with the financial industry. Since then, the bank levy, a charge on the global assets of U.K. banks, has been replaced with a less burdensome one on profits in the U.K.

Wheatley was sacked in September and replaced by acting chief executive, Tracey McDermott, who immediately told the City there would be less red tape. "The intensity and volume of regulatory activity over recent years is not sustainable—for regulators or for the industry," she said. There are reports that "ring-fencing"—the separation of high street banking from riskier investment banking, a key demand of the inquiry begun in 2010 by Oxford University economist John Vickers and due to be completed by 2019— may not happen.

The real role of the FCA is not to "regulate" the financial institutions, but to protect them and cover for their criminal activities. They have become too big to prosecute, said Andrew Bailey, chief executive of the FCA's sister organisation, the Prudential Regulation Authority, explaining that legal action raised "very difficult questions." "It would be a very destabilising issue. It's another version of 'too important to fail,'" he added.



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