Will the FSA answer the questions about RBS collapse at last?

In eight days, one of the most important reports on the reasons behind the collapse of the UK's financial services sector will be published by the Financial Services Authority (FSA).

The Chancellor believes that the RBS report will serve as a useful reminder about why we need banking reform.

By Kamal Ahmed, Sunday Telegraph Business Editor   3 Dec 2011

Its findings on the crisis at The Royal Bank of Scotland (RBS) will be required reading for anyone who wants to understand the lead-up to the 2007/8 financial crisis and its aftermath. With the economy still suffering the hangover today, it is vital that we learn the lessons of that fateful time and this report will be a key piece of the jigsaw puzzle.

Well, at least we must all hope it will be. The gestation period for this piece of work has been long and painful. And to some critics of the FSA, me included, that has raised suspicions about the approach the regulator has taken. The back story to this sometimes sorry tale is as important as what comes out on December 12.

Wind back a year to December 2010. With little fanfare, the FSA published a 12-sentence press release on its efforts to get to the bottom of the crisis at RBS. Let us not forget that this was a collapse that cost the taxpayer the thick end of £45bn. Many retail investors who diligently backed RBS with their hard-earned cash have been left woefully out of pocket.

The FSA's inquiry by PricewaterhouseCoopers cost north of £7m and took more than 18 months. The result? 298 words.

As many realised almost immediately, the FSA's position was untenable. Lord Adair Turner, the FSA's chairman, tried vainly to hold the line that the report could not be published for an amalgam of legal and bureaucratic reasons.

The FSA's arguments varied from the obtuse to the ridiculous. They claimed firstly that there was no actual report to publish (why not? came the reply); that legally the regulator was bound to silence because this had been an inquiry into possible criminal wrongdoing which it had found no evidence of (why wasn't the report broader?); and that we already know the reasons for the collapse of the banking sector and that another report on RBS would add little to the general understanding of events.

It was this last point that was the most breathtaking. Writing at the time of the 12- sentence press release, Lord Turner said: "It would be possible to add a report looking just at the RBS story. But it would add little if anything to our understanding of what went wrong." No story here, ladies and gentlemen, move along please.

Fortunately, a number of people with a good deal of influence thought otherwise. The FSA said that the Financial Services and Markets Act of 2000 demanded that only reports resulting in enforcement action against institutions – which the FSA had not done – can be published. George Osborne made it clear that he would be willing to look again at the legal position.

Vince Cable, the Business Secretary, pointed out that the public had a right to know about one of the most calamitous events in the country's financial history.

In opposition as Treasury spokesman, he had made his position clear: "There is a public interest in finding out what happened. There is no justification for covering up major errors."

The third person in the triumvirate was Andrew Tyrie, the chairman of the Treasury Select Committee, who also expressed his concern.

In a politically impossible spot, Lord Turner executed a U-turn and said that, after all, the regulator would produce a report in March of this year on RBS. March came and went with no sign of any publication as the FSA twisted and wriggled on a hook of its own making.

Ultimately, it was Mr Tyrie who ran out of patience. He suggested a solution that the FSA grabbed at with the desperation of anyone who finds themselves drowning a long way from shore.

Mr Tyrie demanded that the FSA succumb to an independent review led by Sir David Walker, a senior adviser to US investment bank Morgan Stanley, and Bill Knight, chairman of the Financial Reporting Review Panel.

It is the results of this review that will be published next week.

By all accounts, the document is a weighty one, coming in at 500 pages long. It will deal with the failings at RBS as well as with the regulatory system that allowed an under-capitalised bank to take over ABN Amro despite the fact that such a deal would put further downward pressure on its capital position.

It will be the regulatory failings that will be most important. Firstly, it has been very convenient for politicians and the Bank of England to blame the banks themselves for the financial crisis. But the mess happened on their watch, and Sir Mervyn King, the Governor, and Hector Sants, the chief executive of the FSA, are still on the field of play.

The Government has already announced a complete overhaul of the tripartite regulatory system, with the BoE about to be placed at the top of a more unitary structure. The move has been made with little granular understanding of what happened during the financial crisis. The FSA appeared to be asleep in the back seat as the financial sector careered towards the cliff. Why?

It will be interesting to see what use Mr Osborne makes of the RBS report. I am told by senior banking figures that the document will come the day before the Government announces the next stages in the implementation of the Independent Commission on Banking's recommendations on the ring-fencing of a bank's retail operations from its investment operations. The Chancellor believes that the RBS report will serve as a useful reminder about why we need banking reform.

It will also serve as a useful reminder that it was not just the banks that are to blame – an issue that has been too easily forgotten in the last three years as regulation has piled upon regulation to ensure that "this never happens again".

As Alistair Darling, the former Chancellor, said when he was interviewed for our own RBS investigation published last spring, there were "no particular warning lights" about RBS in early 2008. He also said that when he asked for a "health check" on the state of the UK banks' balance sheets, no one could provide one.

This matters not as an historic commentary about events in the past. This matters because so few of the issues around the collapse of RBS have been understood and therefore properly dealt with.

What role did the behaviour of Sir Fred Goodwin, the chief executive of RBS before it blew up, play? Such was his inaccessibility some allege he did not have an internal email address. His management style was one of command and control that brooked little dissent. How many other parts of the financial sector, from the BoE down, suffer from such a culture?

After RBS, we are still awaiting, years later, reports on the collapse of Bradford and Bingley and HBOS. The FSA has not covered itself in glory in the sorry affair of RBS. Let us hope it does better on the other chaotic bank collapses that this country is still paying so heavily for.