

## **Independent Review of Financial Services Authority's report on the failure of HBOS— Terms of Reference**

Stuart Bernau, Iain Cornish and Sir Nicholas Monck have been asked by the Treasury Committee to review the report that the Financial Services Authority is preparing on the failure of HBOS.<sup>1</sup>

The review of the report has the following terms of reference, to which the FSA has agreed:

- To review and report on the extent to which the FSA report on the failure of HBOS is a fair and balanced reflection of the available evidence.
- To review and report on whether the FSA's report is a fair and balanced summary of the Authority's regulatory and supervisory activities in the run up to the failure of HBOS.

The FSA will take all reasonable steps to ensure that the review team has access to such documents and persons as they consider necessary to undertake this review.

As part of the reviewers' consideration of the FSA's work, the FSA will provide the reviewers with drafts of the report. If they consider it appropriate, the reviewers may invite the FSA to reconsider aspects of the report before it is published. Instances where the reviewers' work has led to significant and substantive alterations in the published report will be reported to the Committee. The reviewers will also report to the Committee instances where they have suggested alterations to the draft report which they have been unable to agree with the FSA.

The reviewers may include observations about the completeness of the FSA's work.

The reviewers will be able to raise with the Committee any matters related to their work that they think appropriate.

Evidence or advice given to the Committee will be subject to the procedures governing select committees. Such evidence or advice is subject to parliamentary privilege; it is confidential to the Committee and may only be published by the Committee.

The FSA will provide the reviewers with reasonable resources. The FSA will bear the cost of employing such advisers as the reviewers may require, including the cost of legal representation in any proceedings in which they are involved as defendant or plaintiff relating to the review. Those advisers will report to the reviewers. The FSA and its staff will provide the reviewers with all reasonable staff support and cooperation.

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<sup>1</sup> As well as studying the failure of HBOS itself, the FSA's report will include a high level analysis of the balance sheets of the Bank of Scotland and Halifax in 1998–2001, and of the merged HBOS balance sheet in 2001–05, focusing on capital and leverage ratios. It will not examine the particular causes and consequences of the Lloyds/HBOS merger itself, but will examine the quality of the HBOS loan book in 2008, considering both what was known before October 2008 and what subsequently came to light.