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The Rt Hon Nicky Morgan MP  
Treasury Select Committee  
House of Commons  
London  
SW1A 0AA

21 March 2018

Our Ref: SA180312A



**Re: Co-Op Bank: independent inquiry**

Thank you for your letter of 9 March 2018. You had initially asked for my response by 16 February, but we agreed to extend this deadline.

Alongside the extension of the deadline, you noted your interest in the broader question, which applies beyond the FCA landscape, of the relationship between enforcement action and the timing of independent inquiries. This is an issue that goes beyond my remit as a Non-Executive Director. I have asked Andrew Bailey to ensure that the organisation gives some thought to this question and he will address this issue with you separately.

You have asked, on behalf of the Treasury Committee, for a full account of the FCA's and PRA's regulatory activity, in the context of the enforcement action recently taken by the FCA against Paul Flowers. I set out below the history of that matter, as far as possible, but within the legal and policy constraints to which we are subject. I have also made reference, where relevant, to other regulatory action taken by the FCA and/or the PRA.

In August 2015, the FCA censured the Co-Op Bank for breaching its Listing Rules, and both the FCA and PRA censured the bank for failing to be open with its regulators. The PRA also censured the bank for serious and wide-ranging failings in the bank's control and risk management framework between 2009 and 2013. These failings were extremely serious, and would have merited a substantial financial penalty, but for the exceptional circumstances detailed in the Final Notices issued to the bank.

The investigation which led to those findings began in early 2014, with the FCA and PRA formally appointing investigators on 30 January and 3 February 2014 respectively. The FCA's investigation team conducted the operational work, and in the course of that work reviewed several hundred thousand documents, and conducted around 30 multi-day interviews.

The investigations sought to identify, in addition to establishing if the bank had breached our requirements, whether the conduct of senior individuals warranted investigation in respect of the bank's apparent failings. This work led to the PRA formally commencing investigations into the conduct of individuals in April 2015. It is important to note that, operationally, those investigations were conducted by FCA staff, in accordance with established arrangements. The findings against Barry Tootell and Keith Aldersen were made public in January 2016.

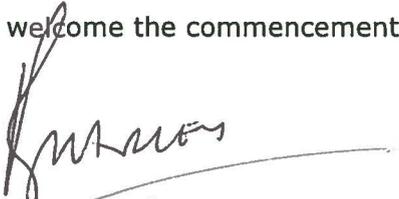
The FCA commenced its own investigations into individuals' conduct, related to the bank's failings, in April 2015. However, those investigations did not lead to public findings.

The circumstances which led the FCA to investigate Mr Flowers were distinct, and our enquiries went beyond the matters ultimately set out in the Final Notice. In the situation of Mr Flowers, investigators were appointed on 19 October 2015.

The investigation into Mr Flowers' conduct was detailed and extensive, and the FCA reviewed in excess of 75,000 documents. Evidence analysed included Mr Flowers' complete Co-op email account, internal bank documents and the findings of other investigations and inquiries related to the Co-op. The FCA also interviewed Mr Flowers and a number of other former Board members.

In the interests of fairness to Mr Flowers, at various points during the investigation we considered submissions he made about the evidence and the investigation, as we would with any subject of an investigation. Engagement of this nature, and indeed other issues that arose in this case, and which arise from time to time in our investigatory work, mean that we are sometimes unable to progress investigations as swiftly as we would otherwise wish.

We welcome the commencement of the inquiry now, and will of course co-operate fully with it.

A handwritten signature in black ink, appearing to read 'Bradley Fried', with a long horizontal line extending to the right.

**Bradley Fried**  
**Non-Executive Director**