

FSA 'failed' in Rock supervision...

The UK financial watchdog, the Financial Services Authority, has admitted that it failed to adequately regulate Northern Rock.

The FSA said there was "a lack of adequate oversight and review" by the agency of the troubled bank.

It said too few regulators were assigned to monitor Northern Rock, which ran into trouble in September.

The FSA said it would be overhauling its procedures as a result of the weaknesses identified.

Newcastle-based Northern Rock was nationalised in February after the credit crisis forced it to seek a Bank of England lifeline to fund its mortgage loan book.

Last week it said it would cut about 2,000 jobs by 2011 and reduce its residential mortgage lending by half under plans to turn around its fortunes.

Northern Rock must also pay back Bank of England loans worth about £25bn.

Competence

The review, carried out by the FSA's director of internal audit, identified what it said were a number of areas for improvement in its supervision of banks.

As a result, it plans to beef up its team with staff that will regularly review the supervision of what it called "high-impact" firms to make sure procedures are being adhered to.

It also planned to upgrade its training of FSA staff and put more focus on assessing the "competence of firms' senior management".

Hector Sants, FSA chief executive, said that it was "clear from the thorough review carried out by the internal audit team that our supervision of Northern Rock in the period leading up to the market instability of late last summer was not carried out to a standard that is acceptable".

But he added that it was "impossible to judge" whether that would have affected the outcome in this case.

"I am determined through the programme of work that I am announcing today, that proper standards will apply to all significant firms supervised by the FSA," he said.

FSA framework upheld

Despite its shortcomings, the FSA review upheld the watchdog's philosophy of operating within a framework of principles-based regulation, rather than rules-based.

And it suggested that ultimately the blame for the collapse of Northern Rock should sit at the feet of the bank's senior management.

"The boards and managements of regulated firms carry the primary responsibility for ensuring their institutions' financial soundness," the FSA said.

Source: BBC News

URL: <http://news.bbc.co.uk/1/hi/business/7313896.stm>

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Sadly, many within the industry feel that this was avoidable and the FSA was not doing its job.

Generally it is felt that the public are in a false state of security with the FSA regulating the market