

FSA on defensive over Lehman failings

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[FT.com / UK - FSA on defensive over Lehman failings.](#)

Good to know I got [yesterday's musings](#) on Lehmann right.

As the FT reports:

UK financial regulators said they had no reason to question the so-called "accounting gimmick" used by Lehman Brothers to flatter its results because the investment bank's UK subsidiary's reports accurately reflected the transactions.

Why - because they were correctly reported on balance sheet under UK GAAP here.

But as they also note:

In the UK, the bank was able to get a legal opinion certifying that the transactions qualified as sales. Lawyers not connected to the transactions said the UK's definition of sale is slightly less restrictive than the relevant law in the US.

The legal opinion made no difference to the Lehman UK subsidiary's accounts to the FSA because they were made under UK accounting rules, which require both repos and sales to be reported on the balance sheet, the FSA said. But when the UK accounts were consolidated back to the US, under US accounting standards, known as GAAP, the transactions disappeared off Lehman's balance sheet, the Valukas report said.

"The balance sheet effect referred to in the Lehman report only occurred in the consolidated accounts which were prepared under US GAAP," Mr Sants [of the FSA] said.

"This is a matter for US financial reporting standards, not . . . for UK supervision," he said. "This is arbitrage between US accounting rules and UK law."

This is exactly as I suggested.

But Hector Sants is wrong because if accounts can be abused in this way of course it is an issue for UK regulators.

So this should be high on the FSA agenda when its continued existence is confirmed after the election.