

The Authority of Financial (Mis)Conduct

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This comes [straight from the Tax Justice Network](#), and is far too important not to share, especially in the light of the FCA having turned a blind eye to HSBC's role in tax evasion, [already noted this morning](#):

As the first decade of the 21st century came to a close the hangover from two decades of excess in the financial sector finally set in. Banks collapsed and threatened to take down major economies with them. It has been a long hangover, and many are still suffering from it.

As the media, regulators and policy makers finally started to pay attention to the financial sector a series of scandals began to emerge. These ranged from carelessness to criminality on the part of major banks responsible for the administration of large parts of the economy.

Central to this issue was the standards of conduct and behaviour of many of the individuals working in banks. At lower levels the Libor fixing scandal showed a cavalier disregard for the law, with traders offering small gifts for rigging multi trillion dollar financial markets. At the top, leaders presided over institutional criminality, setting up entire divisions to deal in illegal or illicit funds.

The misconduct of the financial sector was widely accepted by government and policy makers as being a powerful factor behind the financial crisis. In an attempt to show that they were grappling with the problem, the UK Government even renamed their financial regulator — the Financial Standards Authority — the 'Financial Conduct Authority'.

The UK Parliament's Banking Commission, reporting in 2013, described the conduct of bankers as "appalling" and lamented the lack of any individual accountability for the many failings contributing to financial crisis. In particular it [said](#):

"Remuneration has incentivised misconduct and excessive risk-taking, reinforcing a culture where poor standards were often considered normal. Many bank staff have

been paid too much for doing the wrong things, with bonuses awarded and paid before the long-term consequences become apparent.”

It therefore came as some surprise that on New Year’s Eve it was [revealed](#) that the Financial Conduct Authority has dropped an investigation into the very thing it was set up to regulate, conduct.

One does wonder (or rather hope) that someone at the FCA started their New Year’s celebration early, got drunk, and made a rash and unauthorised announcement; that would appear to be the most rational explanation for the change in policy. Sadly it is not so, the news was apparently snuck out in an update to the organisation’s business plan. No official announcement from the FCA had been made at all, perhaps they hoped no one would notice.

Why has this been done? We can only speculate, but this latest move is just one part of a worrying in shift in the UK government’s attitude towards financial institutions. Currently the FCA is looking for a new director after the previous Director, Martin Wheatley, was fired (or rather, his contract was not renewed without his consent). As one senior conservative lawmaker put it, Mr Wheatley was seen as too tough on the banks.

The person tipped for the top post now should be much more agreeable. Tracey McDermott is the person who would have been ‘ultimately responsible’ for cancelling the review.

Given that conduct can be influenced by incentives, one does have to be concerned by the revolving door — how ferocious will we expect to see regulators if they believe that their future personal financial security relies on the people they are regulating?

This is not just about banker bashing, as Green MEP Molly Scott Cato put it eloquently in [a letter to The Independent](#):

“In an economy where money is created in the private sector based on debt, a banking licence represents an extraordinary power granted to a small number of corporations by the state. Strict regulation of their activities, particularly when their risks are guaranteed by the public, is therefore essential.”