

Treasury Committee

Oral evidence: [Lessons from Greensill Capital](#), HC 1376

Wednesday 28 April 2021

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Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Anthony Browne; Felicity Buchan; Dame Angela Eagle; Emma Hardy; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 1 – 83

Witnesses

I: Lord Macpherson of Earl's Court GCB; Lord Myners of Truro CBE; Dr Richard Bruce, Management Accounting & Supply Chain Academic and Practitioner, University of Sheffield; Professor David Aikman, Director, Qatar Centre for Global Banking and Finance, and Professor of Finance (Practice), King's College London.

Examination of Witnesses

Witnesses: Lord Macpherson of Earl's Court, Lord Myners of Truro, Dr Richard Bruce and Professor David Aikman.

Q1 **Chair:** Good afternoon and welcome to the Treasury Select Committee evidence session on the lessons from Greensill Capital. I am very pleased to be joined by four witnesses this afternoon. I am going to ask them to very briefly introduce themselves to the Committee.

Lord Macpherson of Earl's Court: My name is Nick Macpherson, Lord Macpherson of Earl's Court. I was Permanent Secretary to the Treasury from 2005 to 2016. I would also like to declare my interest as executive chairman of C. Hoare & Co., a small private bank.

Lord Myners of Truro: Good afternoon, Committee. I am delighted to be here and I hope I can be of help to you. I am Paul Myners. I am a Cross-Bench Member of the House of Lords, Lord Myners of Truro. I served in the Government during the global financial crisis. I was also a member of the Court of the Bank of England and I had an extensive business career in finance and other areas. I have a number of declarations of interest in the House of Lords, none of which is in any way directly linked to the matter in hand this afternoon.

Professor Aikman: Good afternoon, everyone. I am David Aikman. I am a professor of finance at King's Business School at King's College London. I am also the director of a research centre there focused on central banking and financial stability. Until a year ago, I was a staff economist at the Bank of England.

Dr Bruce: Good afternoon, colleagues. I am Richard Bruce from the University of Sheffield. I am the team leader on management accounting research at the management school at the university since 2012, fulfilling research into supply chain finance, supply chain operations and the relationship, principally, between suppliers and retailers. Prior to 2012, I worked as a global supply chain consultant and, indeed, was instrumental in one of the original origins of supply chain finance while working with and for one of the big four accountancy companies as a consultant.

Q2 **Chair:** Thank you to all of you for appearing before us this afternoon. My questions are all going to be directed at Nick and Paul. There has been a lot of sound and fury around David Cameron and his lobbying of the Treasury and others on behalf of Greensill. He says no rules were broken, and nobody out there has strongly contradicted that view. The Treasury, of course, ultimately did not accede to that which he was lobbying for. Perhaps we could start with you, Nick. What, if anything, did David Cameron do wrong?

Lord Macpherson of Earl's Court: I suppose you can question his judgment in working for Lex Greensill, but let us put that to one side. There is nothing wrong with people getting in touch with the Treasury,



HOUSE OF COMMONS

and generally, if a former Prime Minister rings you up, as Tom Scholar pointed out, you tend to take the call. Normally when a former Prime Minister rings you up, they are talking about some broader issue of policy and it is worth listening to that.

In this case, it seems clear that Mr Cameron was focusing on something that directly related to his interest in Greensill. He was clear about that. I do not see anything wrong with engaging on that basis, provided that you write it down and record what the individual said, and provided that, once they have made their point, you do not give them special treatment.

Q3 Chair: Paul, I am going to come to you with the same question in a minute, but let us switch now to the Treasury and how the Treasury handled the approach. You used the expression: did they provide "special treatment"? We know that there are a large number of contacts: telephone, email, text and meetings. There was a fairly rapid response, I would say, from the Treasury on many occasions.

On 21 March 2020, a Saturday, Tom Scholar has a pitch from Lex Greensill for a change to the CCFF requirements; Charles Roxburgh has a call with Lex Greensill that evening. On 3 April 2020, David Cameron emails Sir Jon Cunliffe, Deputy Governor of the Bank of England, for help on getting Greensill into the CCFF scheme. That was at 4.21 pm. At 6.52 pm the following day, Sir Jon replies, having already spoken to the Treasury about the issue. On 26 June 2020, Charles Roxburgh having already explained directly to Lex Greensill why Greensill's current proposal will not work, the Economic Secretary to the Treasury writes to David Cameron saying that he is "available to discuss with you privately this afternoon if that would be useful".

Do you get any sense of special treatment? If it was not David Cameron who had been doing the lobbying, would the treatment from the Treasury have been exactly the same?

Lord Macpherson of Earl's Court: In times of crises, you tend to get a lot of telephone calls. Looking back, I probably received rather too many calls from the chairman of HBOS in the autumn of 2008. Was that special treatment? In one sense, it was; in another sense, HBOS was absolutely fundamental to the British banking system and literally millions of people had their money on deposit there. At times of crisis, you do have to listen to people.

Q4 Chair: I am sorry to interrupt, Nick. Do you feel, though, that Greensill was in a similar category in that sense? Was it analogous?

Lord Macpherson of Earl's Court: No, Greensill was not systemic. It is easy to apply hindsight. We know now that his business model had serious flaws, but it is understandable that people should raise the issue of supply finance and its eligibility for this scheme. What I have no idea about is what instructions were coming from Ministers. Certainly, if I look back to the financial crisis, if Alistair Darling asked me to speak to



HOUSE OF COMMONS

somebody, I generally would. You depend, to a degree, on Ministers' instructions, but equally you advise Ministers.

I have not seen all the correspondence. I have seen only some of the stuff that was published. Treasury officials behaved very well, not least because they recorded what happened. I should say that I asked some questions recently of the Cabinet Office about meetings between Greensill and the then Cabinet Secretary, and got no reply. The Treasury has been doing its job in being transparent. Should Charles Roxburgh have met Greensill nine times? I feel sorry for him. In these situations, once you have said, "This scheme does not work", it is really quite tedious to have to carry on having meetings. That displaces important resource. I do not know the background to why Roxburgh kept meeting him, but, judging by the outcome, the advice that he provided was sound.

Q5 Chair: I do not want to put words in your mouth, but it sounds like you might be saying—there were three occasions when the Greensill proposal or the iterations of it were turned down—that they might have entertained these approaches for a bit longer than you might normally have expected. Is that reasonable?

Lord Macpherson of Earl's Court: I was a little surprised, quite frankly. You advise Ministers; Ministers decide; you move on. It is slightly disappointing that officials' time was wasted when that was a valuable commodity because of the wider crisis.

Q6 Chair: Paul, I have the same questions, really. What did David Cameron do wrong? Are you feeling that the Treasury handled this appropriately? Do you have doubts in some areas?

Lord Myners of Truro: Ernest Hemingway, in response to the question, "How do you go bankrupt?", said, "First slowly and then rapidly". I think at the time that David Cameron was lobbying the Treasury, Greensill was already in deep difficulties. The company was struggling.

Q7 Chair: Can I stop you there? That is a very important point. When you look at the motivation for the approach, would it have been known at that point by David Cameron and others that Greensill was in trouble? Are you asserting that you think they would have known and, therefore, that might have motivated part of the approach that was going on?

Lord Myners of Truro: I am sure that Lex Greensill knew the state of his company, as did other members of his board. Mr Cameron maintained that he was an adviser, was not aware of the state of the company and, indeed, did not know very much about the company's products. He was acting as a salesman. He was offering to oil the wheels to get Greensill into Government business, which would have been extremely valuable to Greensill, given the state of his company. He had reached a point where it was not possible for him to refinance his obligations without creating artificial paper to support raising more money. David Cameron's judgment there must be looked at carefully and no doubt will be, when we see the full evidence of the work of the administrators.



As far as the Treasury is concerned, I agree with Nick Macpherson. It does seem an extraordinary waste of Charles Roxburgh's time to have spent as much time with Greensill as he did, not least of all because it was very clear that Greensill did not qualify for the CCFF fund. The Chancellor of the Exchequer said he was pushing his officials, and that explains why there were nine meetings. That would have been a significant distraction, because Roxburgh is one of the most senior and talented people in the Treasury, and it seems tiresome at the very minimum that he was required to spend this amount of time on Greensill. I have no doubt that he would not have done it, had it not been for the pressing by David Cameron on the Chancellor of the Exchequer and two other senior Treasury Ministers.

Q8 Chair: Would your view be, based on your experience and your time in the Treasury, that other companies would not have had nine meetings? Indeed, if Greensill had not been represented by David Cameron, it would not have had all that contact going on; it would have been much quicker and less time-consuming.

Lord Myners of Truro: It seemed that Mr Greensill was very reluctant to take no for an answer, even though the explanations to him were very clear that Greensill did not qualify for the CCFF. A cursory glance at the notice advising the markets of a CCFF would have made that very evident to anyone with even the slightest financial knowledge.

Q9 Chair: Nick, if it is the case that the Treasury is perhaps jumping through more hoops than it might normally in the absence of Mr Cameron's involvement, given the information we have seen through the freedom of information requests, would it not be reasonable to suggest that some Minister or civil servant might have raised this as an issue at some point during this process? When you were Permanent Secretary, would you, in those circumstances, have expected somebody to come to you and say, "This is going on a bit longer than it really should; we are investing far too much time in all of this"? Does the absence of that, if it is indeed absent—we do not know for certain—concern you?

Lord Macpherson of Earl's Court: There is a continuing dialogue between the Permanent Secretary and the Chancellor of the Exchequer about what the Department is focused on, because the Department has finite resources. From time to time, a Minister, the Prime Minister or somebody else gets obsessed with a particular issue that you know, as an official, is not going to go anywhere. It is your duty, as Permanent Secretary, to have a discussion—ideally, in the first instance, an informal one—with the Minister or the Chancellor to say, "Look, this is a blind alley. We really need to be focusing on something else". That is particularly true at a time of crisis. My guess is that during this period the Treasury was working flat out, 24 hours a day, seven days a week. Paul will remember this from the financial crisis. In those circumstances, you have to prioritise.



HOUSE OF COMMONS

I have no idea whether any conversation took place, but there is a regular dialogue. It is open to the Chancellor, who is a democratically elected official, to instruct the permanent Civil Service. That is absolutely right, but there comes a point where enough is enough, and probably under those circumstances you formally write to the Chancellor and say, "This is going a bit far". I doubt that happened in this case, because, although there were a number of meetings, I do not get a sense that it totally crowded out everything else. But it was definitely heading in that direction.

Q10 Chair: You mentioned HBOS. Can you think of other instances where that intensity of engagement occurred, for example, on your watch? Was it highly unusual to have had that level of engagement in that sort of period of time, particularly when the idea was not finding favour initially?

Lord Macpherson of Earl's Court: It is very unusual to have so much engagement with a company the size of Greensill. We definitely had more engagement with HBOS, RBS, Lloyds, Barclays and HSBC in 2008. Alistair Darling was, quite rightly, continually asking us to get as much intelligence as possible and to have as many contingency plans as possible.

You could argue that the chief executives of those banks had privileged access, but it was all above board. I am all for engagement between civil servants, Ministers, business and, indeed, wider society. Business is critical to the success of the economy. Sometimes, very occasionally, businessmen and businesswomen will have really interesting views that can inform better policy. The critical thing is that it is clear when you are meeting these people and on what basis, that there is a record of the conclusions, and that that then informs policy.

What is disturbing is when people have special relationships and it is not quite clear whom they are working for or advising. As I said, in this case Mr Cameron was very clear: he was working for Greensill. At the heart of this problem was a degree of ambiguity going back in time about Greensill. That is not a Treasury problem; it is probably a problem for the Civil Service as a whole.

Q11 Chair: An argument that might—I am speculating to some degree here—have been put at the time as to why it was urgent under the circumstances was that we were going through a terrible financial impact from Covid. One of the big concerns would have been around SMEs, and their viability and cash flow. Here seemed to be something that might help unlock cash flow for a lot of the businesses that the Treasury would have been rightly concerned about. Is that a powerful enough argument, if that indeed does encapsulate the main argument, for the Treasury to engage in the way it did?

Lord Macpherson of Earl's Court: That is a fair argument. Especially at this time, the critical thing was to keep small businesses going. Clearly, the Treasury needed to think about supply chain finance.



Going back to my analogy about the banks, if I had taken all my advice from HBOS instead of talking, say, to HSBC, I would have had a very distorted picture of what was going on in the banking system. There is nothing new about supply chain finance; it has been around for years. If I was really worried about it, I would want to talk to a rather wider set of providers than Greensill Capital.

- Q12 **Chair:** I do not think there is a suggestion that this was some sort of fact-finding mission as much as that this was a business that was very big in supply chain finance and, therefore, perhaps could have some impact in supporting the economy, if it was given access to schemes that it did not at that point have access to. Would that not in itself have made this something that the Treasury would want to look very carefully at and really kick the tyres on to make sure, if it could help, that it did, even though in the event it decided it could not?

Lord Macpherson of Earl's Court: You would certainly want to consider it. Coming back to the role of officials and Ministers, when businesses come and ask for access to subsidies, which in effect this was, you have to ask yourself very clearly, "What is in it for them and what is in it for the wider economy?" Those are the sorts of judgments you have to make. I just worry in this case that—it relates to Paul's point—this was more about Greensill's survival than about the survival of the SME sector.

Lord Myners of Truro: In the global financial crisis of 2008-09, the Government introduced multiple policy responses that were targeted at individual areas of the financial system. That included trade finance, but it was under a separate package. The Government were very clear that CCF was a scheme that was being created for the largest companies with investment grade that could borrow direct from the Bank of England. The Government were not saying, "That is where we stop; we do nothing else". The Government were developing other proposals and, indeed, did with CBILS and BBLs.

It was not that the need was not being listened to. It was simply that this was not the right instrument for that particular segment, because the CCFF was designed for companies with undoubted credit standing, where one could reasonably conclude that Government would experience no loan losses at all, whereas other schemes will give rise to loan losses and, therefore, have to be approached from the point of view of credit evaluation and risk sharing, which does not enter into consideration for the CCFFs. It was simply an inappropriate targeting by Greensill and David Cameron.

Like Nick, I was targeted by those involved in the global financial crisis. Barely a day went by when I did not get a phone call from either the chairman or chief executive of Barclays or Lloyds. I always endeavoured to tell them that they should ring me on my official line, because my calls on my official line would be listened to by my private secretary, who would make a note of the meeting. If they called me on my mobile phone and I was in the office, I said, "Please can you call me on my landline? I



am available". If, however, that was not possible, I made an immediate note to myself so that, when I returned to my office, I could tell my private secretary, "I had a call from Victor Blank and these were the three points that he made to me". An important part of the process is the recording of what goes on. It is there to defend everybody, but particularly to defend the public, because we are dealing with public money here.

- Q13 **Chair:** As a final question, I want to get back to this question of what we might reasonably expect David Cameron to have known about the state of Greensill at the point he was making these approaches. The BBC has reported David Cameron as saying it was "nonsense" to say that Greensill had been "in difficulty" when he lobbied on its behalf. Having seen the FOI-released emails, and to the extent that we know the nature and content of the contact that occurred, is it a correct assertion that he would not have known at that point? I suppose I am asking this: is there anything that we know so far that clearly indicates that, no, he must have known that Greensill was in financial difficulty? If so, what is it?

Lord Myners of Truro: I believe he should have known, and he should have asked questions that would have indicated that. What I cannot do is say whether he did. I can very quickly give you a list of some of the things that would have made him alert, and that made me alert, which is why I first got on to the Greensill case by asking parliamentary questions in July 2019: namely, what happened at GAM with the GAM fund and its lending to Gupta; multiple connections between related parties; high-risk concentration both in assets and in liabilities; concentration of power in the hands of a single man, in the form of Lex Greensill; the fact that the businesses were not subject to any regulation; that it was growing very rapidly; the arrival on the scene of SoftBank, which then appeared to engage in circular movement of funds; the earlier failures of NMC Health, which Greensill had been exposed to, which was also a supply finance issue; the prevalence of a use of up-front fees to boost immediate income; the development of this extraordinary concept of prospective receivables or forward receivables, which were actually not receivables at all but, in the imagination of Lex Greensill, business with people with whom the company was not even doing business at the moment, which were unsecured loans and not supply finance; and a valuation for the company that simply defied logic.

This is a very competitive sector, sir, dominated by the world's biggest banks: Citibank, HSBC, Barclays, et cetera. I found it inconceivable that a business of the scale and value that Greensill purported to be could have developed in that area, particularly as it had no edge, it had no proprietary technology and it had higher costs because it had to pay insurance guarantees and distribution costs to Credit Suisse. Sir, there are 10 reasons why one should have been highly suspect about Greensill. I do not know how many of those points the former Prime Minister identified, or the degree to which he was much bothered about what was in the product as opposed to selling the product.



Chair: That is a very comprehensive answer. Thank you to both of you for answering those questions.

Q14 **Dame Angela Eagle:** Lord Macpherson, in your experience, if a Chancellor was pushing the team and telling an ex-Prime Minister that he was doing that, what might that consist of?

Lord Macpherson of Earl's Court: What, the pushing?

Q15 **Dame Angela Eagle:** Yes. Clearly, the Treasury had been approached. Rishi Sunak himself was approached, and his response via text to David Cameron—although we do not know what the texts sent by David Cameron to Rishi Sunak say—was that he was pushing the team to allow Lex Greensill and Greensill Capital into some kind of support. In your experience as Permanent Secretary, what might that mean?

Lord Macpherson of Earl's Court: There are two interpretations to that text. The classic one is that you are trying to get someone off your back, so you say that you are pushing it when actually you are doing nothing. Since further meetings followed, it suggests that something else happened.

Officials provide advice. The Chancellor receives it and says, "Can you have another look at it?" or a special adviser comes up with some sophistry that justifies having another look at it. Indeed, the Chancellor might come up with sophistry, or the Chancellor might be right. The Chancellor might have had some angle on Greensill that proved that this firm was worth supporting. You then go back to the drawing board and have another go. You talk to the person again; you see whether there is anything in the argument for providing support, and so it goes on. It is mainly about time, really.

Q16 **Dame Angela Eagle:** It is time and special treatment in this case.

Lord Macpherson of Earl's Court: Yes, time and, as you say, special treatment. It is difficult as an official. There are only so many times you can say, "The proposal is stupid". If you carry on saying that the proposal is stupid, there is always a risk that you get cut out of the process altogether.

The job of the Permanent Secretary is to ensure that the Department is cohesive and there is clarity about the opportunity cost of carrying on with a particular proposal. Eventually, generally, you get to the right outcome. Thank God that in this case there was the right outcome, because under other circumstances this could have all been very costly.

Q17 **Dame Angela Eagle:** Lord Myners, you seem to have cottoned on to the nature of this company very early on and asked a series of questions from your position as a Member of the House of Lords. What motivated you to notice Greensill Capital and start asking questions about it?

Lord Myners of Truro: My interest was originally triggered by the announcement by GAM in 2018 that it had suspended dealings in a fund



and it was investigating the behaviours of one or two employees. This is quite unusual. I have asked other questions about the suspension of funds, including property funds and the Woodford funds. Mark Carney said that the open-ended fund industry is one that is built on a lie that everything can be realised at the prevailing price and the fund can be liquidated immediately.

This led me to look more closely at the GAM Greensill fund. I had never seen anything like it. Although it was managed by GAM, it appeared to be solely dependent on Greensill for the supply of product. When we looked further, it became clear that in fact a huge amount of this fund was invested with Mr Gupta. In the end, the only way that this GAM fund could repay money to its investors was for Mr Gupta to buy back the loans from the fund. What we now know is that they were bought back with the aid of a loan from the Greensill Bank in Germany, another example of how the money was going around.

This set tiny alarm bells ringing, and I continued, therefore, to take an interest. I asked parliamentary questions about regulation and valuation of assets, and I got pretty dismissive answers, although the answers did say that my question had been passed to the FCA. I heard nothing from the FCA, so I investigated further and found that Greensill was not in fact regulated.

This was a case of underlap. We have overlap in some cases where people are subject to multiple regulators, which can be contradictory and difficult to manage. In this particular case, in this non-banking lending segment, which has emerged after the crisis of 2008-09, we have financial institutions that are not regulated by anybody. Then you ask the question of whether it is systemically important, and the answer is that we do not need to regulate them if they are not systemically important.

Q18 Dame Angela Eagle: You started asking these questions; you got dismissive answers and were sent to the FCA, which did not reply. Did you then go and meet Lex Greensill? Did Greensill get in touch with you because you were generating this information?

Lord Myners of Truro: I have asked over 30 questions on Greensill in Parliament, not one of which has been answered satisfactorily. Even today I received an answer saying that it would take too much time for the British Business Bank to provide a list of all banks that had been authorised to make CBILS loans, which I found incredible. They have guaranteed loans and they cannot even assemble a list. Then they made a mistake by appearing to suggest that all CBILS lenders were regulated, when, as we know, Greensill and one or two others were not.

I was contacted by somebody who said that Lex Greensill would like to meet with me, so I went to meet Lex Greensill. I spent about an hour and a quarter with him at his offices just off the Strand. I came away from that meeting even more worried. I was given very superficial answers; I was given answers that were contradictory; I was told the company was



HOUSE OF COMMONS

a fintech. We must be very careful about this term. We have very few fintech companies. Even though the former Prime Minister has described it as a fintech, Greensill was simply not a fintech. It had 700 employees; it was a paper-based company. It was not in the world of technology at all.

That meeting concluded with Mr Greensill, who is a charming man, saying, "You clearly know quite a lot about business and finance. I am looking to strengthen my board before my IPO. Would you like to become a director?" Trying to mirror back his charm, I said, "That is very kind of you. Thank you very much. I am hugely flattered, but I am actually quite busy at the moment. I do not have any more spare time. I have a good balance in my life, but thank you very much". He said, "Do not dismiss us out of hand. Let us keep talking". I concluded that it would be a good idea to keep talking, because I left that meeting travelling down in the lift, thinking to myself, "This has many of the elements of a Ponzi scheme".

Q19 Dame Angela Eagle: After that, did David Cameron ever lobby you personally?

Lord Myners of Truro: He did speak to me. We were at a breakfast at the Connaught Hotel about four weeks later. He came bounding over to me. It rather took me back, because I was probably the least significant person in the room. It did me a great deal of credit that the former Prime Minister came charging over saying, "Hi, Paul. How are you?" He then said words to the effect of, "I am delighted to hear that you are speaking with Lex. I hope he has been able to answer your questions, and I do hope you will keep up your meetings with him".

Q20 Chair: It would be useful to know when those two meetings occurred, Paul, if you have not already written to us on that.

Lord Myners of Truro: I have them here. When you are asking somebody else a question, Chair, I will give you the answer when you come back to me next.

Chair: Just drop a quick note to the Committee after the session, if that is easier. Thank you.

Lord Myners of Truro: Thank you so much. I will definitely do that.

Q21 Dame Angela Eagle: I will give you time to come up with those dates, Lord Myners, because I am just going to ask Lord Macpherson my final question. Were you surprised to see that one of the main people in all these meetings with the Treasury was Bill Crothers, the former head of the UK Government procurement organisation, who we now know was working for Greensill prior to leaving Whitehall and seems to have taken a very senior role in these meetings between Treasury officials and the company?



Lord Macpherson of Earl's Court: I was certainly surprised to discover, when he had left the Civil Service, that there was a period when he was working for both Greensill and the Civil Service. There are very clear rules that are fundamental to movement between the private sector and the Civil Service, and the Civil Service and the private sector, which I am very much in favour of, incidentally. Charles Roxburgh is a classic example. He moved from McKinsey to the Treasury six or seven years ago, and his expertise has been invaluable.

This system works only if you follow the rules. ACOBA is very clear on this. First, you generally need a cooling-off period. I had a cooling-off period when I left the Treasury in which I was not even paid; I had to pay for it myself. Beyond that, in relation to every job, there is a two-year ban on lobbying. My main advice to any public servant is never to do a job if its main function is lobbying. It is deeply soul-destroying and slightly antithetical to the system.

I do not know when his meetings with the Treasury took place. If they were within two years of his departing the Cabinet Office, to me that is in breach of the rules and inappropriate. It may be that either he did not seek to clear his new role with ACOBA or the Cabinet Office had somehow exempted him by failing to follow the rules itself. It does seem that some strange practices were going on in the Cabinet Office at that time, as indeed the Cabinet Secretary seems to have indicated in his evidence to another committee earlier this week.

Q22 **Dame Angela Eagle:** Lord Myners, finally, do you have those dates?

Lord Myners of Truro: I met Lex Greensill on 12 July. I do not have the date for when I met Mr David Cameron, but I will provide that to the Committee. For completeness, I also had a meeting arranged with Mr Gupta on 4 March 2020, but Mr Gupta did not turn up. I had been asking questions about Wyelands Bank, a bank that Mr Gupta controlled, which seemed to lend primarily to Mr Gupta's friends. I went to the meeting with Mr Gupta. He did not turn up, but his secretary Jay Hambro did meet with me.

Q23 **Felicity Buchan:** Good afternoon, everyone. Can I start by commending Nick on your choice of title? Earl's Court is in my constituency of Kensington. I will ask a general question of Nick first, and then I will turn to Paul.

Is it a reasonable conclusion here to say that the Treasury system actually did work? There was lobbying, including lobbying from a former Prime Minister, yet Treasury did not amend the CCFF rules and did not allow Greensill to participate. This is actually evidence of the system at the Treasury working.

Lord Macpherson of Earl's Court: Yes, I would agree with that. It is a huge tribute to the quality of officials in the Treasury and to the Chancellor's judgment. Despite receiving these texts from someone who



had clearly been rather important in a former life, they did not give in to pressure. The Treasury comes out of it rather well.

Lord Myners of Truro: I agree with Lord Macpherson. They handled this situation, where there appears to have been quite a lot of pressure to meet with Mr Greensill, in a way that was entirely right and proper. That cannot be said about BEIS or the British Business Bank.

Dame Angela, I have now found the breakfast with David Cameron. It was at 7.30 am on 24 October 2019.

Q24 **Felicity Buchan:** Something that has really surprised me is the revelation, which Angela alluded to, that Bill Crothers, while he was head of procurement at the Cabinet Office, had this second job as an adviser to Greensill. I will start with Paul this time. How prevalent is it that civil servants have second jobs in the private sector?

Lord Myners of Truro: I am not an expert on this. I passed through Government. I served as a Minister for less than two years and did not have any background in the other place. I know that one of the members of my private office was a governor of a school. I know that because occasionally she asked whether she could leave early.

As far as commercial relationships are concerned, I was shocked. I was the first person to raise Mr Crothers's name in the House of Lords. Again, there was a pretty unsatisfactory reply. I am afraid that I did not get to the bottom of it in the way that the press did by finding out that he had, extraordinarily, worked for the Cabinet Office and Mr Greensill at the same time, and then had not had to go through the ACOBA process because, it was argued, the job was substantially unchanged. Yet the first period was a one-day-a-week advisory role and the second period was a five-days-a-week executive role. You cannot claim that the role did not substantially change as a result of that.

We need to look at the procedures followed by the Cabinet Office in allowing Mr Crothers to do this, because he was serving two masters. He was working for Greensill to promote Greensill's business while at the same time working for the Government as a primary target for Greensill. Indeed, Greensill was at that stage, I believe, already working with Government through the pharmacy scheme and the Earnd scheme for NHS employees, neither of which made any economic sense to Government.

Why would Government seek to pay any of its bills earlier by borrowing from a newly established finance firm when Government have the lowest cost of funds available to anybody in the system? It was just absolutely nonsensical, and yet, for reasons that defy my understanding, this was being pushed hard within Government and had received take-up. I look forward to your Committee, as I am sure you will, getting to the bottom of this.



Q25 **Felicity Buchan:** That is actually interesting. I am due to come back at the end on the pharmacy dealings and why Government signed up to that. I will be back on that in an hour or so. Can I turn to Nick with the same initial question? Were you surprised that Bill Crothers had this private sector job simultaneously?

Lord Macpherson of Earl's Court: I was really surprised. The Cabinet Secretary recently wrote a letter round to all Permanent Secretaries. I have not seen Tom Scholar's return, but I would be utterly astonished if any Treasury official was doing another private sector job on the side.

This is a very longstanding principle. Gladstone was asked about it in the 1880s. He was under pressure from the radical wing that people should be able to go and work for the co-op of a weekend, and from the City that civil servants should be able to have other jobs. He was very clear that no man can serve two masters.

As I say, I do not know what was going on in the Cabinet Office. I know that, in 2015 or so, another senior official was brought in, and it was only following advice to the then Chief Secretary, Danny Alexander, that we managed to stop a proposal that this official should continue as a non-executive director of a very large international brewing firm. I am persuaded that the standards in place in the Cabinet Office were different from those in the Treasury, which could be an argument to restore the situation that obtained until 1968, namely that the Treasury was in charge of the Civil Service.

Q26 **Felicity Buchan:** This inquiry is looking for lessons and takeaways. Is one of the lessons that civil servants should just not be allowed to have external commercial jobs?

Lord Macpherson of Earl's Court: That is one of the lessons. You need absolute clarity. As Paul says, sometimes doing a voluntary job can give you wider experience and insight; sometimes it is sensible for civil servants to go on secondment to private sector firms. But there needs to be clarity about the conflict, cooling-off periods and how these things will be managed. That is central to the role of Permanent Secretaries.

I spent a lot of time talking to Ministers. I can remember a man who was going to come in and work during the crisis, who was at a very large investment bank. I spent ages going over how those conflicts would be managed. Whether it was Lord Myners or Dame Angela Eagle, we found ways through to ensure that everything was above board.

Lord Myners of Truro: I have a slightly different perspective on that. The view that private is good and public is bad in terms of administrative capability is wrong, but both sectors can benefit from a better understanding of the other, and therefore I would favour secondments. Under certain circumstances, for instance, I would allow a senior civil servant to become a non-executive director of a company, if that company was well distant from any responsibilities that the civil servant



had and anything that significantly affected that Department. I would probably introduce a process of certification, which I would also introduce at ACOBA, where perhaps twice annually the individual and the company would be required to certify that nothing had taken place that compromised the barrier between the two.

I believe it would enrich the experience of the civil servant, quite frankly in the same way that Mr Nigel Boardman, whom we are likely to mention later on, is seconded or works as a non-executive director at the BEIS Department, the supervising Department for the British Business Bank. This is bringing private experience into the public sector. That would be a generally good thing to do, so we must not throw the baby out with the bathwater; we must come up with a better way of allowing this to happen without giving rise to conflicts or the appearance of conflicts.

Lord Macpherson of Earl's Court: I agree with Paul, but anybody who is a very senior official at the Treasury or the Cabinet Office is bound to be conflicted wherever they go and whatever they do. The Treasury simply covers too big a waterfront.

Lord Myners of Truro: I agree.

Q27 **Felicity Buchan:** Nick, just picking up on that point, do we need any changes to the rules, for instance, on the cooling-off period to prevent people benefiting from the revolving door of Civil Service to private sector and back? Do the rules work at the moment? Do we need tighter rules or is it just a question of more transparency?

Lord Macpherson of Earl's Court: We probably need tighter enforcement. I have always preferred transparency to hard rules, because hard rules can occasionally get in the way of perfectly sensible developments. This has to be above suspicion. ACOBA has been very weak. It is not the people who work for it or in it; it is just that people seem to bypass it all too frequently with no consequences.

Lord Myners of Truro: I went through the ACOBA process myself. It was not terribly penetrating at all. I was chairman of a company during the two-year ACOBA period when we considered acquiring a major global fast food business. I advised ACOBA that the circumstances of the company that I was chairing were about to change. They said, "Do you have any conflicts of interest?" I said, "Not so". They said, "Do you use the products or services of the company you are acquiring?" This is a company that sells hamburgers on the high street, so I had to declare that.

I found it pretty toothless. ACOBA does not command very high respect. It is not because of the people there; it is because it lacks powers and it lacks a secretariat of sufficient resource to cover as many people as it should in the depth it should. It is only advisory, so people tend to, if they wish, ignore the advice. It probably has to move from being advisory to being mandatory. Therefore, if you accept a ministerial office,



HOUSE OF COMMONS

you accept that at some point you will be subject to ACOBA, and it will be part of your evaluation of whether to be a Minister.

I repeat my view that you should certify every six months while you are subject to an ACOBA limitation that you have not involved yourself in any lobbying. We then come to the definition of lobbying. What one person might describe as lobbying another might describe as an exchange of views designed to inform both parties. It is quite tricky.

Q28 Anthony Browne: I want to follow up some of the points Lord Myners was making about the Greensill business model. Before that I am going to give you, Lord Myners and Lord Macpherson, a little break by asking David Aikman and Richard Bruce a question about securitisation. How common is it to securitise supply chain finance debt in that way? What would be the advantage for Greensill in doing that? I do not know who is best placed to answer that.

Dr Bruce: I will begin by explaining how supply chain finance should work, very briefly. If one looks back to the origins of it, there are three main things that companies can do to affect their cash flow: they can pay people later; they can get money in earlier; and they can reduce their stock levels and indirectly affect the cash position.

One of the things that drove this change to introduce supply chain finance was a certain recognition by some global companies. We can talk about Procter & Gamble publicly because Harvard Business School did an excellent case study on its introduction to supply chain finance. They decided to do this, but in a way that was honourable. They talked to their merchant banks and provided access to capital to their suppliers earlier than they had been previously been getting it. They moved from 30 days in some cases to 120 days that they were paying. The merchant bank could offer, based on the credit rating of P&G, very low-risk—there was hardly any risk at all—very low-rate finance to the suppliers, which were able, in some cases, to get payment the following day.

That set up a system where there was a degree of trust between the two parties, the supplier and the customer, and there was a bank that was a separate third party. It was introduced by the company. The difference here is that Greensill and others, to be fair, are moving away from that sort of system and actually going to people, as Greensill did with the Government, to say, "We can offer you this facility, but, to make it clear, we will have to borrow the money to do it". In order to capitalise on that further, they securitise those debts and others, as Paul has already reminded us around future receivables, which are fictional in pure accounting terms, to have this idea of bonds that you could sell into the market. The problem with this is that, apart from anything else, you completely break the chain of responsibility between the supplier and the customer. That is the fundamental difference in what Greensill was doing.

How widespread is it? I do not know; David may know more than I. A body called the Global Supply Chain Finance Forum produced a paper last



HOUSE OF COMMONS

August with a heading that the misuse of supply chain finance is worrying but not widespread. They talk about a number of things around the undertakings and principles that apply in supply chain finance, which clearly Greensill did not follow. David, you can probably add more on securitisation than I have been able to say there.

Professor Aikman: I do not have facts on the size of the market, but I would just say that it is fairly obvious why banks would want to be involved with this business. It is a staid old business, as Lord Macpherson reminded us at the beginning. We have seen a trend over the last 10 years of non-banks providing more credit in various fora. That is a natural consequence of some of the steps we took 10 years ago to raise capital requirements for banks; it has pushed activity into the non-bank sphere. Non-banks will have to finance this activity through some other means than deposit taking. That is their business model. That is why securitisation enters into this area.

Lord Myners of Truro: If I could give a less technical answer, Mr Greensill had clearly decided that he did not want his business to be regulated by anybody. Therefore, he had no significant source of liabilities from which he could fund the advances to the suppliers. He had to find an alternative mechanism, and that was securitisation.

Q29 **Anthony Browne:** You described it as a Ponzi scheme a few minutes ago. Why do you describe it as that?

Lord Myners of Truro: A Ponzi scheme has to keep moving. It has to keep refunding liabilities as they become due or meeting the requests of people who want to leave the scheme. As one of the notes packaged into the securitisation matures, the money has to be paid back to the purchaser of the note. To do that, you need more money coming in. What was frequently happening with Greensill, it would appear, is that, when the issuer of the initial note that was being discounted wanted their money back, they simply received the money back in their left hand from Mr Greensill and gave it back with their right hand to Mr Greensill.

He had costs that he needed to meet. As in any Ponzi scheme, it has to get bigger all the time, and ideally income needs to be more front-end loaded. We know from the evidence placed in court in America in the case of Blue Mountain that that was exactly what Greensill was doing.

Q30 **Anthony Browne:** Were there parallels between this and the subprime crisis? There you had securitisation of residential mortgages where the underlying risk was massively mispriced, and that is why the bubble ended up collapsing. Are there similarities with that here?

Dr Bruce: That is entirely similar. This is something I drew attention to in an article recently. Again, we can learn from what happened there. There are differences, and there are differences in the way it was handled. There is direct parallel there, and I would advocate regulation in



HOUSE OF COMMONS

some way that would help to prevent this being done. That is probably going to be necessary.

Q31 Anthony Browne: The next section I wanted to come to is about the lessons learned from this. Supply chain finance is not regulated, and I know people are going to ask questions about that later. The securitisation aspect of it is also not regulated here. Is the lesson to learn from this that that part of it should have been regulated or not? Normally, the principles of regulation are consumer detriment—and we are not dealing with naive non-professional consumers here—or financial stability. Neither of those criteria seems to be met here, because it was not systemic.

Lord Myners of Truro: Whenever you regulate, Mr Browne, as you will know from your background, the problem is that when you tighten regulation in one area you displace activities into another. That is what we have seen with the non-bank sector. Alternatively, you come up with creative structures that stand at the margin but just the wrong side of regulation. This is a big and very serious problem for the FCA. Nearly all the major crises the FCA has been involved in have been at the regulatory perimeter: peer-to-peer lending, minibonds and a number of other cases spring to mind. That is a problem.

Interestingly, I have looked at the factsheets produced by Credit Suisse on this Greensill fund. They grade it as the lowest risk. They have seven risk levels, and they grade this as risk level 1. They say that the product is suitable for retail investors. This was not necessarily confined to corporates. It was being sold to, I imagine, endowments, pension schemes, high-net-worth individuals and others. I would say that, 10 years after the Financial Services Act was passed, we should take a good hard look at it again. This may be something for your Committee to do, Chair. Circumstances change. Some of the criticism levelled at the FCA is a function of the limitations of the law and the lack of clarity around the perimeter.

Q32 Anthony Browne: It is not simply a case of a company failing with a bad business model, so there is nothing to change.

Lord Myners of Truro: That does happen to be the case with Greensill. It was a fundamentally flawed business model that would inevitably have failed, because of its costs. It was not possible to offer a fund at a time when interest rates were at zero, and in some currencies negative, that was providing a yield of 1.5% after paying insurers' premiums for risk mitigation, after paying Credit Suisse a fee of 0.5% and after allowing Mr Greensill to build a company that was allegedly worth \$7 billion while at the same time only investing in the most prime of prime paper. Something was not right there, and that is what clicked for me when I saw Mr Greensill. I concluded, perhaps unfairly, that he was taking a lot more risk than he was maintaining to me and others that he was.



HOUSE OF COMMONS

Dr Bruce: I have a couple of points. First, there is a parallel on regulation. The Commons looked at the question of taxing aviation fuel. There is a good House of Commons paper on that. It made the very prescient point that, if the UK Government introduced a taxation on aviation fuel to try to reduce air miles, airlines would simply refuel elsewhere. That is one of the problems.

Supply chain finance is part of the globalisation that we have in supply chains. As we have seen clearly with Apple and so on, companies can adjust their business model to pay tax in the lowest possible market. There is a problem: if one does introduce control, how does one do it across boundaries? That may be something the future can see.

I am not sure I entirely agree that this is purely a problem for business. The consequences of failure, for the businesses that have suffered and have not had the ability to continue trading through the collapse of Greensill, are serious. In Scunthorpe and other areas, industries have been hit hard by the failure of businesses as a result of what happened with Greensill.

In a sense, getting it wrong in terms of how supply chain finance is supplied, does have consequences for Joe Public, the man on the Clapham omnibus or the lady on the Glasgow tram. That is something we need to take account of. It is more than just businesses suffering here.

Professor Aikman: I would like to reinforce the point Richard Bruce has just made. This is a gap. We are likely to see more non-banks taking a bigger role in providing finance to the corporate sector going forward. It seems unfortunate that this company was allowed to act in an unregulated way and grow so rapidly.

The other lesson I would point to is on the accounting side. I am not an accountant, but it seems just plain wrong that this form of finance is allowed to occur without appearing on the balance sheets of companies relying on this form of finance. That need addressing urgently.

Anthony Browne: I would love to follow that up, but I know there are going to be questions on accounting later and I have run out of time. Thank you all very much.

Q33 **Chair:** Paul, can I come back to you on one thing, to make sure we have got it absolutely right? You said earlier on in evidence that these two meetings, the one with Lex Greensill and then bumping into David Cameron at the breakfast, were about four weeks apart.

Lord Myners of Truro: Yes.

Q34 **Chair:** In fact, the dates you have given are more like 14 weeks apart. That may be a mis-recollection, which is fine. There was certainly no meeting with Lex Greensill other than the one on 12 July, was there?



HOUSE OF COMMONS

Lord Myners of Truro: No. It was a mis-recollection. At my stage of life, life goes by very quickly.

Q35 **Chair:** I do it all the time; it is not a problem. I just wanted to make sure we had not missed anything. When you bumped into David Cameron, can you share with the Committee what exactly was said? Did you raise any of the concerns that you had effectively raised with Mr Greensill when you met him about the viability of the business et cetera?

Lord Myners of Truro: No, I have reflected the complete conversation. It was a brief conversation, standing, immediately prior to us all being seated at a breakfast. There were about 20 people there, and David Cameron was speaking about his book.

Q36 **Alison Thewliss:** Lord Myners, David Cameron's statement notes the concerns expressed about his ability as a former Prime Minister to lobby, but he argues, "I thought it was right for me to make representations on behalf of a company involved in financing a large number of UK firms. This was at a time of crisis for the UK economy, where everyone was looking for efficient ways to get money to businesses". From your point of view, is this point of crisis a valid excuse for the way things unfolded both for Mr Cameron and for the Treasury?

Lord Myners of Truro: I have partly answered that already by saying there was a need to bring forward proposals to support the self-employed, small businesses and charities, but it simply was not covered by the CCFF. Mr Cameron did not seem to appreciate that. It is difficult to see any circumstances in which the CCFF, which was designed for names that are known to all of us, of undoubted prime quality, would have been amended to include any of those other categories. The Government had been clear that it was developing a portfolio of responses.

Yes, the right things were being done in the crisis, but at no point did Mr Cameron's pushing of Greensill to participate in the CCFF respect the integrity of the CCFF as designed by those who had created it.

Q37 **Alison Thewliss:** So you feel that it is not really an excuse. As we might say in Glasgow, he was being a bit fly and a bit wide in even asking the questions.

Lord Myners of Truro: Well, he may have not done his homework, again. I am perhaps suggesting that he should have been asking himself some pretty obvious questions about Greensill. He probably should have read the small print about the CCFF scheme, and he should have come back to Lex Greensill and said, "No, this is not the right thing, Lex. This is not where you are going to get traction, but you could come up with some really clever ideas around funding for SMEs using supply chain finance. That is what we have to be doing, not pushing for the CCFF". Unfortunately, the dog had been told that the bone had been thrown over the fence and gone off running after the bone, regardless of the fact that it was always going to be futile.



HOUSE OF COMMONS

Q38 **Alison Thewliss:** That is interesting. Lord Macpherson, I wondered if you thought this was a valid excuse. You talked earlier about your experience during the financial crisis, the phone calls you might be getting and the pressure that might be put. Is there a valid excuse for the way in which things have unfolded?

Lord Macpherson of Earl's Court: It is a partial excuse. All businesses that lobby Government like to argue that what they want is in the wider public interest and goes far beyond their narrow sectional interests. It is the job of officials and, indeed, Ministers to respond to this with a degree of healthy scepticism. I do not know Mr Cameron's motives; no doubt the Committee will be asking him in due course.

Q39 **Alison Thewliss:** We certainly will do, I am sure. You said earlier that advisers go to Ministers and advise them on the pressure they are getting, whether they should act and whether they should continue to pursue something. You said that Ministers decide and you move on. Do you feel that there was perhaps a lack of decision-making here? There was all this continual meeting and continual asking. Was there a bit of a lack of decision-making, if that was the case?

Lord Macpherson of Earl's Court: I have seen situations with some similarity to this before. Often, Ministers just hope that, if they keep asking, officials will come back with the advice they want to receive. In this case, they clearly did not.

It is the job of officials to support the democratically elected Government of the day, but, especially in the Treasury, where it is even more important because huge amounts of public money can be at risk, they have to provide clear and impartial advice. If there are issues of propriety or value for money, you have to bring those to the surface.

Q40 **Alison Thewliss:** That makes sense. You talked about the importance of listening to a range of people on an issue, not just listening to HBOS but listening to the sector as widely as possible. Is there much evidence of officials and Ministers listening to people more widely on this particular aspect?

Lord Macpherson of Earl's Court: It is really difficult. I am in no doubt that business generally has more access to Government than ordinary people up and down the country, trade unions or wider civil society. This is difficult. It always slightly troubled me to see the ease with which business does get access, which just comes back to the same point as to why you have to be careful. It is very difficult to channel wider interests. In some regards, you are relying on MPs as representatives of broader society to come in and make those points, either in Parliament or in private meetings.

Q41 **Alison Thewliss:** Do you feel that, in a time of crisis, the usual systems that might be in place to prevent undue influence fall away a little bit? Was that your experience?



Lord Macpherson of Earl's Court: There is always a risk. In times of real crisis, you are having to take decisions under imperfect knowledge and huge uncertainty. As I have said before, in those circumstances, if you can get the decisions 66% right you are doing very well indeed. It is also particularly at those times that propriety is really important. That is where senior officials come in. The Permanent Secretary's job is to ensure that due process is followed and that interests are declared.

Paul was making the point that this is in the interests of broader society and the taxpayer. That is true, but it is also in the Ministers' interests. Part of the job of a civil servant is to protect Ministers from doing silly things on the spur of the moment. I know it is annoying, and no doubt some people think it is obstructive Sir Humphrey-ness and all that, but one or two times I can remember Chancellors after the event saying, "I am really grateful that you made that point. Otherwise, I might have messed up". They did not say that very often, I hasten to add; you are not in the Civil Service for gratitude. Very occasionally it did happen, though.

Q42 **Alison Thewliss:** Is there, in the current culture within Government, enough of a brake on those decisions? Has that changed since you were there?

Lord Macpherson of Earl's Court: It is an age-old problem. It is always tempting for former civil servants to think that it was all better in their day and that it has all become hopeless. All I do know is that Tom Scholar was my second Permanent Secretary. He led the Treasury's efforts during the financial crisis. I rest more easily in my bed knowing that he is there, because what you need in these situations is someone with experience, ideally who has served different Governments. Tom must be on to his fourth Chancellor by now. It is that experience that can make a difference.

You also have to be prepared to stand up to No. 10 and the Cabinet Office. That is sometimes the problem in other Departments. The Treasury historically has a degree of self-confidence, partly because of the role of the Chancellor but partly because it has not had its name changed every two years or its deckchairs rearranged. It has been around for about 1,000 years, and I rather hope it is around for another 1,000 years.

Q43 **Alison Thewliss:** At that point of crisis, when everything is happening at once, how do you guard against lobbying creeping in, where, before you realise it, the decision has been made and things have rolled on?

Lord Macpherson of Earl's Court: Paul made a very good point. A lot of this is about the prevailing culture within the Government. This is not a party-political point, but Alistair Darling was obsessed with propriety and would ring me up about things where I thought, "Why would you bother me with that?" Such was his obsession with not being shown to be doing



the wrong thing. Partly it is a culture set by the Secretary of State. That is important.

The private office is really important. The relationship between the Permanent Secretary, the private office and the Ministers, that triangle, is critical. For example, when Lord Myners first started being a Minister, he had a very good understanding of the constitution, but he arrived bang in the middle of the crisis and he was having to do about 115 things. I would occasionally remind the private secretary that she had better tell Paul to do this. Occasionally Paul would get annoyed, and maybe very occasionally he might have ignored that advice. But we had a good relationship. It was one where you could have those conversations.

My guess is that that is still the case in the Treasury. I look back to the Ken Clarke era or the George Osborne era. It is important to create that cohesion and that basic understanding of the right way and the wrong way of doing business.

Q44 Alison Thewliss: The last thing I wanted to touch on was around Covid contracts. This is just a very small question. The National Audit Office has highlighted the VIP lane, where people were more likely to get contracts if they had been recommended by MPs or Ministers. How does that fit within that general, advisory civil servant role and the ministerial role, when these things are being decided at speed?

Lord Macpherson of Earl's Court: Speaking for myself, personally I find that slightly troubling. I am not close enough to the debate and the arguments. There may be very good advice. You clearly wanted some sort of fast track. If you had set it out in a classic OJEU notice and asked everybody to apply, it might have taken months. You needed a fast-track system. I am always slightly worried if a fast track, when it comes to spending public money, is determined by politicians. I love politicians; they are great people; you do a great job. Inevitably you represent certain interests, and those interests may not be the interests of the broader taxpayer; they may reflect sectional interests.

Lord Myners of Truro: The VIP lane makes sense if the determination of who goes in which lane is made in accordance with clearly articulated criteria. You may well, for instance, have a rapid scan of a proposal by officials to decide within a matter of hours whether this one looks like a real runner or whether it looks speculative. Access to that lane should not be by anything other than meeting objective criteria. As we have been told, if anything, it actually failed in its intention to focus work. It created more work, because more time was spent on things that were not good. You could say that we had the fast-lane equivalent for Lex Greensill in terms of his access to Scholar and Roxburgh.

Alison Thewliss: Thank you very much. That is very useful.

Q45 Siobhain McDonagh: At this stage in the meeting, there is some overlap in my questions, but I want to look at the use of more informal



methods of contacting Ministers and senior civil servants. Lord Myners, when you were at the Treasury, it was a very difficult and challenging time, and everybody wanted your attention. Was it normal to have private conversations with business and others by text, phone or in person when you were a Minister? Where did you judge the boundary to be between a private conversation and one that was in the public interest?

Lord Myners of Truro: Good afternoon, Ms McDonagh. In my view, any conversation I had that was even vaguely related to my ministerial duties was a public conversation that had to be recorded. I am not somebody who gives out his mobile telephone number to lots of people. My children complain, "Dad, what is the point of you having a mobile phone if you have it on silent all the time?" I did not have as great a problem as some people. As I said earlier, a critical issue is to make sure your private office is told if you do have a phone call on your personal mobile.

Another thing that we really need to be asking questions about is the disclosure of ministerial contacts. First, they are not timely. Clearly, information deteriorates and degrades in value with time. If you are told, "This conversation took place a year ago", it is clearly not going to influence what happens now, compared to being told that it happened a month ago. When I look at ministerial disclosures, I find that they often have descriptions such as "general matters".

I do not know what the right depth of granularity is, but at the moment it is too much at the discretion of the minister in terms of what they disclose about the materiality of the discussion. I can understand why somebody might say, "I am not sure I want to have a meeting if it is going to become a matter of public record", and there needs to be some guidance there for the senior civil servant to give direction, if it is something very confidential, but I am sure we can work up better rules than we now have. I personally would like to see those disclosures on a monthly basis.

Q46 **Siobhain McDonagh:** How did you view more informal things like text messages? I imagine that you did not have WhatsApp, but how would you have seen those much more immediate forms of contact?

Lord Myners of Truro: There were not a lot of text messages at all. I have not been a great user of text myself. We were in a lot of meetings. We were in too many meetings. We were in meetings where we were already two meetings late for the meeting we should be at, and we had another one in between. You had to work very hard to avoid distraction. That is a matter of discipline and listening to the advice from your private secretary, which I did not always do. Whenever I did not do it, I always had to end up apologising, because I had got myself into a hole.

Q47 **Siobhain McDonagh:** It seems that the Treasury team from 2008 to 2010 has been very popular in being asked about posts by people currently in trouble. We learned today that Alistair Darling refused to be



part of the charitable trust for No. 10. We have been led to believe that you were approached by Greensill for a board-level role. You have expressed your concerns about the company. Why did you decide you did not want to be part of it? Why do you think they wanted you to be?

Lord Myners of Truro: I decided that I did not want to be a part of it, because I felt it was a highly questionable business. I arrived at the meeting with a fair number of questions. I gave you earlier on the 10 things that were in my mind at that time, and I left the meeting even more worried. I was actually quite surprised that Mr Greensill closed the meeting by asking, "Is there any chance you might like to join us as a director?" because I would have marked this down in my own diary, from his perspective, as a pretty unsatisfactory meeting.

Then he came back to me again, and I decided that I should let this run a little further, because at one stage we talked about me having access to some data and the data room at Greensill. I felt that, if I did that, I would find that either I was being totally unfair to him and that actually everything was proper, or that my suspicions were right. When I reflected on that, I concluded that it was beyond the means of a single person to go through a data room to reach those conclusions, and I called the discussions to an end.

I cancelled a dinner that had been arranged with Mr Greensill, and I carried on using the parliamentary method of putting down questions, just about every week, on Greensill, in the hope that somebody would ask, "What exactly is this? Why does Myners have a bee in his bonnet about Wyelands Bank, Gupta and Greensill?" That did not really produce the answer I had hoped.

Q48 **Siobhain McDonagh:** Do you think they wanted you on the board for your personal brilliance or because you were being difficult?

Lord Myners of Truro: "When did you stop beating your wife?" He probably wanted to stop me asking questions, but he was also trying to build up his board. A former Treasury Minister who has worked in banking, and been on the boards of several banks and the Bank of England, probably would have looked a useful bauble to hang on the Christmas tree.

Q49 **Siobhain McDonagh:** Lord Macpherson, since your time at the Treasury, have more immediate forms of communication like text and WhatsApp made it more difficult for Ministers? What would have been your advice to Ministers if they were receiving those sorts of communication?

Lord Macpherson of Earl's Court: They were pretty prevalent. I left in 2016. With each generation, you see further technological developments. Ken Clarke you could never get hold of. The Prime Minister would try ringing him when he was driving his Ford Escort down from Nottingham each Monday morning, and no one could get hold of him. When Gordon Brown arrived, that lot all used pagers and so on. That was a bit of a change. When Cameron and Osborne got in, because they were a



HOUSE OF COMMONS

younger generation, they were just far more in tune with texts, WhatsApp and so on.

It is tricky, because there is always going to be a private space where politicians' mates are going to get in touch with them, and it is really a matter of judgment for them as to how much they share. What I have been quite impressed by in recent weeks is the capacity of people, whether in No. 10 or the Treasury, to screenshot text conversations and ensure they are put on the record. I did not see much of that in my time.

In the end, a lot of this is about the prevailing ethical climate. If you want to have an incorrupt system, you want to have politicians who want to be incorrupt. Civil servants can do so much to encourage them to produce records and write things down, but if you go on at them too much they will just go behind the bike shed and have a conversation down the House of Commons, and then you do not know what is going on at all. It is quite tricky.

Q50 Siobhain McDonagh: I want to get in a very last question quite quickly. The Treasury refused to release some of the text messages from David Cameron when it answered a recent FOI request. How can it be right that some of David Cameron's messages, the messages of a former Prime Minister, to the Chancellor of the Exchequer lobbying for access to Government loan schemes are not subject to freedom of information?

Lord Macpherson of Earl's Court: I hope they consulted a lawyer, but you should ask my successor when he no doubt turns up at this Committee.

Siobhain McDonagh: That was a quick answer. Thank you.

Q51 Chair: Can I just ask two quick things before we move on? One is to you, Paul. You were obviously on to the issues around Greensill very early. The whole picture that seems to have emerged is that you were very much a lone wolf. You were out there on your own, fighting the good fight, as you would see it. Was there nobody else who was on to this? Was it not being ventilated more publicly than your questions in the House of Lords and the various statements you made? Was it just you in 2019?

Lord Myners of Truro: It was just me who was pulling a number of things together. There were articles being written about GAM, Gupta and SoftBank's arrival on the scheme. I was probably the only one who saw the interconnectivity. Once the story began to get momentum, we saw some great coverage by Robert Smith and his team at the *Financial Times* and John Collingridge at *The Sunday Times*. They have dug up lots of material, such as the registration of companies with almost the same names as well-established businesses, the existence of fake invoices and other matters, which I could not possibly have found. During the early days, I was the only person who seemed to be obsessed with Lex Greensill.



HOUSE OF COMMONS

Q52 **Chair:** When it got out as an issue that there were various things going on that, on the face of it, do not seem to be right, that would have been after the point, presumably, that David Cameron had been lobbying the Treasury. Is that correct?

Lord Myners of Truro: Yes.

Q53 **Chair:** A key question that this Committee is attempting to answer is whether the Treasury behaved appropriately in the face of the lobbying that came its way. Nick, your answer to that was that, basically, yes, you feel they did. Paul, you then agreed with that. Do you include Treasury Ministers in your observation there or are you just talking about officials?

Lord Macpherson of Earl's Court: The Treasury is an institution. The Ministers are the people who take the decisions. They arrived at the right outcome. You can argue about some of the process, but this was the Treasury doing its job.

Q54 **Chair:** That would include the Chancellor and the other Ministers et cetera, based on the information we have.

Lord Macpherson of Earl's Court: Based on the information we have, I have no direct evidence that Treasury Ministers behaved inappropriately, but I am nowhere near it and so I know very little.

Q55 **Chair:** That is understood. I just wanted to qualify the earlier remark. Paul, would you agree with that?

Lord Myners of Truro: Yes, on the basis of what is reported. We do not know a great deal at all about Mr Cameron's contact with the two more junior Ministers in the Treasury. We do not know anything, really, about the private drinks arranged with Matt Hancock. I am not sure whether we have yet seen the totality of Mr Cameron's engagement with the Civil Service across all Departments and Ministers across all Departments. I am not sure whether that question has been answered. I have certainly asked the question in Parliament, but I am almost certain that the answer, if I got one, was, "It is too difficult for us to do it". As I said, if you look at the answers to my questions, you have to reach the conclusion that the people replying have no wish to encourage this matter any further. They want to close this down.

For instance, we are obliged under EU legislation to publish the names of people who received coronavirus loans and bounce back loans. This has been done in the States, with their paycheque scheme. It has helped disclose fraud. Undoubtedly, if it was done in this country, we would have seen the accumulation of exposure to Gupta from Greensill, but our Government continue to maintain that they are not going to publish it. They originally told me that they were not going to do it because it was an infringement of personal liberty. I then pointed out that they were required to under EU legislation. They said, "We did not realise that".



HOUSE OF COMMONS

They now say that their first priority is to protect the identity of the borrowers. This was a parliamentary answer I got today from Lord Callanan. The first priority should be to protect public funds and public confidence in the system, but they are delaying publishing the names of the borrowers, even though they are required to do so under EU legislation that still applies to us. They are going to push this up as far as they can towards the limit. I regard that as bad behaviour.

Q56 Julie Marson: For my questions, I will stick, please, with Nick and Paul. It has been a fascinating discussion, and we have covered quite a lot of ground. I want to try to distil that discussion and all the ground we have covered into trying to get your views on where we might look at changing the system, and the reforms that might be applicable when it comes to lobbying the Treasury, particularly given, as we have covered, the reach and scope of what the Treasury does.

Nick, particularly given what you have just said to the Chair, we have looked at the outcomes and perhaps the right answers were given. Could we distil your thoughts in terms of where you think the system did work, but also where you think there is scope for reforming the system as it applies to lobbying the Treasury?

Lord Macpherson of Earl's Court: Where it works is that companies were listened to; the Treasury distilled its views and provided advice to the Chancellor; and the Chancellor took a decision. In this case, he agreed, no doubt, with the Treasury's advice that Greensill should not have access to the scheme. It is not a terribly difficult conclusion to reach, but at least he did. The issues here are partly about transparency and the speed with which information is recorded and made available. Ministers have never been terribly forthcoming in parliamentary answers, but I have to say that some of the answers given over the last year in relation to Greensill—I have asked one or two questions myself—have been disappointing.

The issue then is about whether you reform the lobbying system in some way. There was a very imperfect piece of legislation in 2011-12. Can you make that work better? Then there are the issues around ACOBA, how long you have a break on anybody lobbying Government and, more to the point, how you enforce it. Those are the sorts of things that I would look at.

I am glad to see that a new adviser to the Prime Minister on ministerial interests has been appointed today. That is really important. It is tempting always to focus on Ministers; the Civil Service needs to have even higher standards. We need to create clarity about interchange, movements and senior officials' meetings. There appear to have been a number of meetings in the Cabinet Office where it is not clear why Greensill was meeting people. That is not right. It is in those sorts of areas that I would want to see change.

Q57 Julie Marson: We talked about the two-year gap after leaving office. You



would be looking for an increase in that. Do you have a feeling for how long you think that might be?

Lord Macpherson of Earl's Court: No, I probably would not increase it that much. Fundamental to a successful Government is movement between sectors, whether it is the voluntary sector, the private sector or Government. If you force everybody to inhabit boxes, where if you make some decision at the age of 25 you are only ever going to be in the public sector, you will get far worse Government.

In my experience, private sector involvement in Government and people moving into Government—Paul Myners is a good example, but a lot of people have come in as civil servants—works very well. I am not in the business of making that two years longer, but you need a proper cooling-off period that is enforced. This issue of lobbying is really important. Personally, I would hate to do a lobbying job. It is totally humiliating and I can think of no worse way of making a living. If you are going to do that, there needs to be a really proper gap, and it needs to be enforced.

Q58 **Julie Marson:** To comment on your previous conversation about technology, is there potentially an aspect of Government not having kept up with technology in their rules?

Lord Macpherson of Earl's Court: You have to look at these things, but in the end this comes down to culture. If Ministers and politicians want to have a sensible culture, they can create it. You can introduce all sorts of rules around official telephones and so on, and those who want to ignore the rules will just have private phones with private WhatsApp groups, and officials will never know what is going on.

A lot of this depends on whether the Government of this country want to behave to the highest standards. If they do, how are they going to go about doing it? You can invent as many rules as you like, but, if there is no desire to behave to the highest standards, people will find ways through.

Q59 **Julie Marson:** Perhaps I could ask Paul the same question. Maybe I could play the devil's advocate a little bit, because it is fascinating. There is a legal maxim that hard cases make bad laws. When we are looking at something that did happen in a crisis, should we put too much emphasis on this particular time and this kind of situation?

Lord Myners of Truro: First of all, lobbying has a serious brand issue. If you asked, "Do you think our elected representatives, Ministers and senior civil servants who develop, determine and implement policy should be receptive to representations from interested parties and those who are informed?", people would say, "Yes, surely they cannot do this in complete detachment from the views and experiences of others".

We then come down to saying that there is good and bad lobbying. How do we decide what is good lobbying? We want to be able to say, "This is



tremendous. The Minister is listening. The civil servants are accessible. The legislation that is being produced is rooted in reality". We would all say that is very good. Saying, "It is largely the consequence of us being lobbied" would probably not be the right way to defend that. On the other hand, we have bad lobbying, which is quite difficult to define.

We should just accept that making representations to senior parliamentarians, Ministers and the Civil Service is on the whole beneficial, but it has risks. Those risks are best managed through disclosure and transparency. The lobbying Bill was a classic piece of legislation agreed by a coalition Government in which both sides were able to protect the bits they did not want to see covered, at the expense of putting forward a piece of legislation that covered very little. Clearly, it is not just the lobbying industry that we need to be concerned about here. I would look again at that legislation.

To conclude, Mr Cameron was an employee of Greensill. We are not entirely clear on which company he was an employee of. The person who deals with the public register of lobbyists appears to have said that he has seen Mr Cameron's contract, but I asked a parliamentary question about whether he saw the contract and I have not got a reply yet. I suspect I am going to get a reply that says, "I cannot disclose that".

We want to make sure that, if somebody engages in anything that looks like lobbying, it is a matter of public record. It should be a matter of public record through disclosure by the person who was the recipient of the lobbying. That would be a very big step forward. To try to articulate the difference between good lobbying and bad lobbying would be nigh-on impossible to do.

Julie Marson: It has been a fascinating discussion. Thank you both.

Q60 Rushanara Ali: Good afternoon. I have a number of follow-up questions, and then I have one or two questions about supply chain finance, although I am conscious that some of that has been covered already.

Lord Macpherson talked about the culture of the Civil Service, the behaviour of Ministers and the understanding of how each group should operate. Having spent a bit of time as a civil servant and then in politics, I am very mindful of the importance of respecting the boundaries of the two roles.

In light of the Transparency International report related to PPE contracts, which concluded that about 20% of Covid contracts last year raised one or more red flags for possible corruption, the Greensill case is actually the icing on the cake. It shows that the VIP lane and the special treatment of certain contacts connected to political parties and Ministers in this case, and, indeed, the former Prime Minister, is going to amount to a radical shift in our system of Government and the world-renowned and respected Civil Service. It is basically now under threat, because we have a number of people in Government failing to respect those different roles.



HOUSE OF COMMONS

Do you feel that the inquiry that has been announced and the person leading that inquiry will do justice to all that has been exposed by both the Greensill case and the PPE procurement contract scandals?

Lord Myners of Truro: That is a very good question. Indeed, all the questions have been very good. Let me deal with a narrower question. I have known Mr Nigel Boardman for 30 years. I have taken advice from him on more than one occasion. He is one of the top lawyers in the City. But he is not an appropriate person to lead this review.

He is not an appropriate person for three reasons. First, he is a non-executive director of the BEIS Department. He has stood down from that role, but he is going to re-join. He has half a foot out of the door, with the other one and a half remaining in the door. The BEIS Department is the Department that has cost the Government more money, with Greensill, than any other single Department. The accumulated losses from Greensill for the taxpayer, in my judgment, are going to be north of £1 billion, of which nearly a half will come as a result of the BEIS Department's scheme to accredit Greensill as a lender under the coronavirus loan scheme.

Q61 **Rushanara Ali:** Can I just clarify this point? The role of Greensill and this whole affair is going to end up costing £1 billion to the taxpayer. That is what you are saying.

Lord Myners of Truro: It is actually going to cost a lot more. You have the externalities, the indirect costs, the cost of having to rescue the steel industry from its saviour, Mr Gupta, and the cost of dealing with the social implications of closure of plant, if necessary, or the net present value of up-front subsidies to keep the steel industry in its current form operating. We are going to be talking about a figure, I would have thought, somewhere in the region of £3 billion to £5 billion. The direct cash out of the door relating to Greensill is going to be in the order of £1 billion or so, I would guess, on the basis of the current knowledge we have.

Mr Boardman is disqualified by virtue of being a non-executive director of the BEIS Department. He is disqualified because he produced a report on procurement for the Government a few months ago, which was such a whitewash that hardly anybody knows it was actually published. It received nil public attention at all. Perish the thought that anybody on the Committee is going to refute me and say, "I know it line by line", but that was an example of a whitewashing report, which is not what we need here.

Thirdly, Mr Boardman lobbied against the rather ineffective lobbying legislation that was introduced in 2011-12.

Q62 **Rushanara Ali:** Lord Myners, would I be correct in saying that this inquiry makes a mockery of what has been going on? You have mentioned a £1 billion direct cost of the Greensill scandal; you have



mentioned potentially £3 billion to £5 billion in indirect costs from the Greensill scandal. You have now said that the person who is meant to be leading the inquiry is frankly not the right fit for that inquiry. This seems to me like a mockery, not a serious exercise in transparency. What would you say?

Lord Myners of Truro: If the identity of the reviewer appears to be compromised, it will forever damage the acceptability of the report that is produced. Mr Boardman could well be a technical adviser to the committee, but I believe the review that is being done, commissioned by the Prime Minister, should have been handled by a retired High Court judge or somebody from the commercial Bench, who would have been beyond any suggestions that he had a side.

I am afraid that Mr Boardman is on record as opposing legislation on lobbying. This is one of the things he is being asked to look at. The terms of reference are also incredibly wide and the time horizon that has been given is incredibly tight. If the timetable is complied with, we will get a very superficial report. It is almost impossible to dig into all these many issues that Boardman has been asked to look at. I say that without any hint of criticism of Nigel Boardman, who is an outstanding lawyer and individual.

Q63 **Rushanara Ali:** Lord Macpherson, is there anything you want to add to this? I also have a specific question for you, which is related to the CLBILS scheme. We have established so far that the Treasury and officials, despite the onslaught of lobbying and pressure and the multiple meetings—frankly, I share your point about it being a nuisance—averted that, but the fact is that on 19 May the Treasury announced an extension to the maximum loan size of the coronavirus large business interruption loan scheme up to £200 million.

Subsequently what we know is that, in June 2020, the Treasury made the announcement to increase it, and Greensill used 80% of the scheme to lend firms connected with Sanjeev Gupta an estimated £400 million. Could you comment on whether there could be a correlation between the pressure that Treasury Ministers were under, along with the number of meetings, and the subsequent decision to extend that? Let us say that you were approached by a Prime Minister, such as Margaret Thatcher, if you were serving in those days. Would you even expect Margaret Thatcher, John Major or any other Prime Minister to approach the Treasury in the way we have seen David Cameron approach Treasury officials and Ministers?

Lord Macpherson of Earl's Court: Generally, former Prime Ministers do not approach the Treasury. They do from time to time, usually to get some record relating to when they were in office. If there is some freedom of information issue that is sensitive, you might get in touch with them.



I think this is a generational thing. Politicians tend to retire younger and so are more likely to be in the commercial sector than they were. It is unusual. I do not claim to be massively au fait with the CLBILS system. Clearly, Greensill did get access to that. As I understand it, his access was capped, although he clearly found ways of exploiting it to go beyond those caps. You will just have to ask the Treasury when the time comes. What informed the judgments? What were the relative roles of the Treasury and the BEIS Department?

Q64 Rushanara Ali: I hear you, but I just wanted to challenge the point you were making about whether we can draw conclusions thus far, given that in the end Greensill did access Government-backed loans, albeit under a different scheme. There are questions still to be answered on that.

Lord Macpherson of Earl's Court: Clearly, there are questions to be answered. The judgment of officials appears to have been that Greensill fell within the ambit. Was pressure applied? I do not know. Having resisted the pressure on the major scheme, I guess his officials were satisfied that Greensill was eligible, although it is interesting that their eligibility was capped.

Q65 Rushanara Ali: Some might argue that Treasury Ministers and officials, and other Government Ministers, notably from BEIS, were beaten into submission, ultimately, with all this lobbying.

Lord Macpherson of Earl's Court: No doubt you will get to the bottom of this.

Rushanara Ali: Yes, I hope so.

Lord Macpherson of Earl's Court: It is very hard to tell.

Q66 Rushanara Ali: I am going to bring in Lord Myners, but I also want to bring in Dr Bruce on supply chain finance and whether it is a useful product or just an accounting trick allowing firms to take debt that does not look like debt. There is also this issue about late payments. Surely it is not beyond the wit of Government to come up with a scheme through which late payments can be addressed at a policy level, rather than these Ponzi schemes or schemes that put the consumer interest and the public interest at risk.

Lord Myners of Truro: The decisions on CBILS were made by the BEIS Department and by the British Business Bank. They were not made by the Treasury. That is one of the questions I have had answered very clearly by the Treasury, saying, "It has nothing to do with us, gov". I believe you need to ask the British Business Bank how it formed the view it did that Greensill met its requirements for accreditation, what due diligence it did on the capital base of Greensill and its ability to absorb losses.

We then have this extraordinary issue that they were given a limit, but they did not get a phone call from the British Business Bank, as we get



HOUSE OF COMMONS

from our own banks, saying, "Lord Myners, you are about to go overdrawn". They just carried on lending more money, and those guarantees will now be called on. They may indeed be called upon by the creditors to Greensill. Your Committee, or another Committee, needs to spend serious time on that with BEIS, which comes back to my view that Nigel Boardman is disqualified as an independent voice on this matter.

Yes, supply chain finance is used to disguise debt in other countries, particularly the States. The SEC is now looking at this very carefully. I understand the International Accounting Standards Board has decided to look at this at the moment, but we have two academics who know much more. Yes, of course, Government can pay earlier, but remember that David Cameron commissioned Sir Philip Green, no less, the well-known Monaco-based retailer, to do a report on Government procurement, as an adviser to the Government, in 2009. Sir Philip Green's principal recommendation was, "Pay your suppliers later".

You have a Government that are facing in two ways. At one stage, Mr Cameron was endorsing a report that said that Government would help improve the quality of its procurement by paying more slowly, while a few years later he is saying, "Hey, we need to pay more quickly". You can no doubt ask Mr Cameron that question as well.

Dr Bruce: We are where we are, and this is one of the problems. As part of preparations for this, I talked to some people I know, at a very senior level, in big corporate. There is a general agreement that, had we not gone down the road of supply chain finance, we could have a more ideal situation where people were paying their bills earlier, and that could even possibly be regulated. The problem is that we have created a system, not the Greensill solution, but what I might call the honourable one. There are big advantages to it.

The point that we must not lose sight of is that the ability of AAA-rated, or better, highly credit-scored companies to enable their suppliers to be paid earlier at very low rates of interest does not just affect those companies; it affects their suppliers. The tier 2, tier 3 or tier 4 suppliers can get paid earlier, not through using supply chain finance again, but simply because the tier 1 supplier gets paid earlier.

A couple of weeks ago, I wrote that in an ideal world we would not have any of this, everyone would pay their bills on time and it would be fine, but we have created a situation that relies on this low-cost finance, provided that you have the separation between the roles. You have a supplier, a customer and a bank. The Greensill solution has not only taken that, as we said earlier, through securitisation, but they are not a bank; they are an intermediary. As Paul has made clear, they are charging fees, and the bank is charging fees, discount rates and so on. It ends up being more expensive to the suppliers.

Trying to prevent this going any further is a tricky issue, but one of the issues about how you control it is how far you go. When we had the



HOUSE OF COMMONS

Tesco issue, it was effectively using accruals in a different way, forecasting money coming in and declaring that as profit. Grant Thornton made the general point, not of Tesco, that audit is not about detection of fraud. I am a management accountant, not a financial accountant, but I found that an incredible statement.

Let me give you a very simple example. Let us imagine you have a toilet and a toilet cleaner. You have this thing on the wall that says when the toilet is supposed to be cleaned, and someone ticks it. If you do an audit, you can ask, "Is there a system?" Yes. "Is the person doing it being trained?" Yes. Unless you are going to observe, you do not know that that is being followed.

If we use that as a parallel, one of the problems about detecting what is going on is the level of granularity you can get in determining to what extent these things are being done. Transparency is very important and absolutely essential, but how you enforce it is really difficult. I am not sure if that answers your question, but we do not want to throw the baby out with the bathwater. There are some very strong benefits of honourably managed supply chain finance and we do not want to lose those.

Rushanara Ali: It seems to me that, given the cost of what seems like a dishonourable management of supply chain finance in this case, we are going to need to sort this out and make sure the system is clean, so that taxpayers do not end up losing out, as Lord Myners has said that they will, in the order £1 billion directly and £3 billion to £5 billion indirectly. There are also real consequences for people's jobs and livelihoods.

Q67 **Emma Hardy:** Good afternoon, everyone. There are many takeaways from this evidence session, but one of them is that we all need to check carefully what Lord Myners is putting in on his written parliamentary questions. It is definitely good advice for everybody. Before I ask my question, I just want to re-put it into the context of Lord Myners's powerful evidence on the 10 points and how he was able to see problems with the business model; Dr Richard Bruce reminding us of the wider impact when businesses fail; the £1 billion cost to the taxpayer that we have just heard; and Lord Myners pointing out that, when there is a crisis and the Treasury is working 24/7 to deal with the crisis, if it is meeting someone, it is not meeting and supporting somebody else. Therefore, can you see anything in the Greensill business model that would warrant the Chancellor pushing the issue with the Treasury?

Lord Macpherson of Earl's Court: I do not see anything particularly about the Greensill business model itself, but, picking up on Dr Bruce's point, supply chain finance can be an honourable activity. A lot of really small businesses rely on it: invoice discounting and so on. In my view, we need to detach the issue of supply chain financing from the Greensill/Gupta alleged—because I still do not know the facts—pollution of the system.



Q68 **Emma Hardy:** I will reword that slightly, if it helps. With all the evidence we have on the business model that has been given on Greensill, aside from the contact and the association with the previous Prime Minister, is there anything within Greensill's business model that maybe, therefore, would worry other people or should have worried the Chancellor ahead of him pushing it to the Treasury?

Dr Bruce: It is important to reflect on the role of credit insurers. Credit insurers are remarkably adept at risk assessment. That is their job. The fact that one of the credit insurers to Greensill announced last autumn it was withdrawing cover from March should have been a warning shot to people to say that they, for whatever reason—and I do not know; I have not managed to speak to them—were concerned about things. One of the answers we can look at is trying to get regulators to work more closely, if possible, with credit insurers to see how this work is being done. This is a potentially quite difficult issue, but there were things happening that were signals to other people, apart from Paul's 10 points and so on, which were not picked up.

I go back to my point about the role of audit. Again, I can say this as a management accountant, not a financial accountant, but the role of a financial audit ought to be more to do with really checking that things are actually as they really are, rather than being what had been stated as facts. There are two takeaways from that, to use your phrase, that are worth pursuing, if that helps.

Q69 **Emma Hardy:** David, when you look at the emails, letters and call notes released by the Treasury and the Bank of England, both earlier in the year and last week, did anything particularly strike you about Greensill's business model?

Professor Aikman: I would just echo the points that have already been made. My sense is that my ex-colleagues at the Bank of England reacted appropriately to this. It is quite normal that they would have received approaches of this type. I was also working at the Bank during the time of the global financial crisis 10 years ago, and this type of thing was common. It seems that they looked into it, but it was ultimately a Treasury decision. I very much agree with the points previously made. In principle, this is an honourable business model, but there are certain aspects of the way Greensill seems to have pursued this, relying on enormous concentration risk, basically taking excessive risk as a way of growing its business very rapidly. I concur with the other points.

Q70 **Emma Hardy:** Lord Myners, earlier on, we heard that the Treasury met with Greensill nine times. Nine times seems quite an excessive number to be told no. Is that normal?

Lord Myners of Truro: No, it is quite exceptional and is probably setting a record of sorts. There are some people who find it very difficult to accept no for an answer, but I can only conclude that it was because it



HOUSE OF COMMONS

was Mr Cameron who was pushing it. If it had not come from that and did not have his imprimatur on it, it would have died a lot earlier.

Trade finance is at the core of what our world's major banks do, and it is what banks have been doing for thousands of years. It oils the wheels of the economy. There is nothing fundamentally wrong with trade finance, providing it takes place within a regulated entity. Mr Greensill created a structure where it was not regulated by anybody. Can we therefore say, "Fine, the system did not fail because it was outside regulation"? I do not find myself persuaded by that. I am more concerned that people at the Bank of England and the FCA did not say, "This Greensill firm is interesting. I see they have raised more money. Oh, they have persuaded David Cameron to join the board and the Australian former Foreign Minister. Do we know anything about them? Should we go and meet them? Should we show some interest? Myners is asking questions", which, incidentally, get passed to the regulators. "Why don't we go and look at them?"

I give them very low marks, for being completely oblivious, just as they seem to be oblivious to adverts on the tube saying that you can get 11% per annum from peer-to-peer lending or from minibonds. It is not being in the real world; it is not having a degree of scepticism. That is why, in addition to asking questions about the ambit of the regulation, there are some questions to be asked of people at the FCA, the Bank of England and the PRA. "Why did you not seem to know anything about this?"

Q71 Emma Hardy: Earlier on, you spoke about the business model, as someone gave evidence, saying you did not feel it was particularly fintech at all in what Greensill was doing. Lord Macpherson and Lord Myners, do you think the Government are at risk of being blinded by the promise of exciting technology? Could that be part of the problem?

Lord Macpherson of Earl's Court: There is certainly a bit of that, the white heat of technology. Every Government likes to be associated with success stories, such as the dotcom boom. Fintech is definitely the flavour of the month. Greensill clearly was in alliance with a serious American fintech outfit, but, as Paul has set out, this simply was not fintechery. Can I just make one very brief point? Citibank originally had the pharmacy scheme contract, but Greensill took that over in alliance with Taulia. What interests me is that, because Greensill was a shadow bank, he did not have the same capital requirements as an ordinary bank. That meant that he was going to be more competitive in bidding to run that scheme than conventional banks. The Committee needs to look at whether shadow banks have unnatural advantages and whether the Government are effectively encouraging them in these sorts of exercises.

Q72 Emma Hardy: Lord Myners, you referred earlier to the FCA as being culpable for ignoring the warning signs on Greensill. Would you say that the FCA was asleep at the wheel? Are you concerned that there could be other Greensills out there being missed by the regulator?



Lord Myners of Truro: “Asleep at the wheel” is a charge that has been levelled at the FSA and the FCA for about 20 years now. I would work on the basis that my starting presumption, if I were chair of the FCA, is that these things are going on all the time. I would be shocked if my officials said to me, “We do not think there is anything bad going on”. Bad things happen and you have to be alert to them. You need a certain mindset, a certain doggedness and a certain scepticism.

I believe that David Cameron, by joining up with Greensill, gave it a standing that allowed the business to grow at a faster scale and into a bigger company than if it had not had his name there. That is because most people will say, “That is tremendous. You have an ex-Prime Minister”. I am slightly in the other camp, to say, “Wait a minute. Why do you need an ex-Prime Minister? What does that add to the business?” I would like to give all our regulators a serious dose of scepticism. I would indeed encourage them to have devil’s advocates. I would encourage them to have people and departments whose sole job is to work on a presumption that we are not working and there are things we are missing.

Q73 **Emma Hardy:** We have this almost perfect storm of a former Prime Minister being involved, who cannot take no for an answer, shiny, new technology that is dazzling people in the Treasury, and an FCA that is, to use a different term than “asleep at the wheel”, napping, perhaps. Professor Aikman, are there any lessons from this episode for the Bank of England and the FCA’s approach in general, but particularly to fintech?

Professor Aikman: That is a very good question. I used to work on the macroprudential side of the bank, and the remit that the Bank has in that space is to protect and enhance the resilience of the financial system, but it is also to support the Government’s economic objectives. The Chancellor writes an annual letter to the Bank, listing what those objectives are. In the most recent letter, it lists promoting fintech and its contribution to the productive finance and economic growth. The Bank has this delicate balance between making sure the system is resilient and sound, which is its core objective, and being asked to look at where it can take actions to promote businesses like fintech. There are questions about whether that balance is exactly right. It involves trade-offs.

Q74 **Dame Angela Eagle:** I want to ask Dr Bruce about this thing, which sounds perfectly reasonable when you listen to what it is called, but is actually rather alarming: prospective receivables. Do you want to explain to people who may be watching us what prospective receivables are, in the context of Greensill’s behaviour as supply chain finance?

Dr Bruce: There is a five-letter word beginning with F that rather describes it. It is perhaps a bit rude to say that, but it is sailing extremely close to the wind to pretend these are anything other than inventions. Essentially, Greensill was entering into conversations with companies and talking about doing business with them. If they expressed interest—and in some cases, even if they did not, there was still a dialogue going on—



they would assume that there was going to be business of this sort, so, if that business transpired, there would be revenues that could be invoiced at a future date.

This is entirely speculative. From an accounting point of view, there is nothing to account for because you are not talking about fact; you are talking about fiction. That is why I said the F word—not the four-letter one, but the five-letter one.

Q75 Dame Angela Eagle: Can you go back a little bit for those who have not come across this idea? My understanding of it is that Greensill was actually advancing money to Gupta and his group of companies for payments for invoices that were going to be due—all so reasonable. That is supply chain finance. Prospective receivables are advancing money for goods and services that have not happened yet, which might never happen, and in fact some of the people who are trying to wind up Greensill have approached various companies, asking them about prospective receivables in business. These companies have said they have never even had any contact with Greensill and Gupta. To me, that sounds about as close to fraud as it is possible to get.

Dr Bruce: Yes, absolutely. There is also something in accounting called accruals. If you and I do business together, we have a contract going forward a year, I am going to be invoicing you on a regular basis but against a contract, and we know that money, unless the contract is breached, will be coming in, we can accrue for that. We can allow for that in the accounts. That is still looking ahead but it is accruing a future income that is secure, all things being equal.

You are absolutely right: the difference here was that this was potential income against which there was no security. This is the problem with the securitisation of those assets. That is not an asset.

Q76 Dame Angela Eagle: There is no security on it because it is a figment of Gupta's imagination. It is a future possibility in a universe that may occur in a parallel world. He is then borrowing from Greensill, and Greensill is advancing him money. Greensill is then securitising that, as if it is an asset, and selling it as if it is the lowest possible risk. That is what seems to have been happening.

Dr Bruce: Yes, absolutely. The securitisation of it, to some extent, hid the nature of what was being securitised in that way. You are quite right. That is, as you said, as close to fraud as you can imagine, because it is trying to deceive people in believing there is a security where there is not, and therefore selling bonds. Credit Suisse will have a particular view on that.

Q77 Dame Angela Eagle: I think they have lost billions, have they not?

Dr Bruce: Yes.

Q78 Dame Angela Eagle: The issue then is that, as this securitised bond



HOUSE OF COMMONS

gets advertised and people buy it, it is advertised as if it is very low risk, but actually it is extremely high risk, is it not? Does this not sound like the global financial crisis, but with supply chain finance, rather than subprime mortgages?

Dr Bruce: Nick made the point about not criticising supply chain finance as such.

Dame Angela Eagle: I am not. I am criticising the more wild cowboy end of it. Mr Greensill is clearly the cowboy here.

Dr Bruce: That is right. We should not tarnish legitimate, honourable supply chain finance with that brush. The issue is that, if there is any securitisation going on, that should not form part of what I think is an honourable supply chain finance relationship. It should be that there are three parties, a bank, a customer and a supplier, and you do not need all this other rigmarole to try to invent the creation of money, which is essentially what seemed to be happening. It is going round in a vicious circle. As Paul said, it is a Ponzi scheme, where you need to keep treading to produce more income.

That is the clear distinction. What needs to be regulated and prevented is using securitisation of fictional assets to raise money. That is probably an offence, if one looks at it in detail, under the Fraud Act and so on.

Dame Angela Eagle: Perhaps the offence is being covered up when the front of your company is an ex-Prime Minister, who is trailing it round every area in the world, saying how wonderful it is. That is quite a good disguise, is it not?

Dr Bruce: Yes.

Q79 **Dame Angela Eagle:** Perhaps Lord Macpherson and Lord Myners would come in here. This is a shadow bank, which is unregulated. Lord Macpherson, you just made the beginnings of this point. Lord Myners, you also said this activity has been shifted from the regulated banks, which have been regulated after their extremely bad misbehaviour in 2008 and cannot lend in this manner. But we are now seeing the existence and growth of shadow banks and the unregulated sector. This could get systemic, could it not? It is completely unregulated.

Lord Macpherson of Earl's Court: Historically, it has always been the case. You had the same problem in the early 1970s, where excessive regulation on the banks led to a lot of roundtripping, the secondary banking crisis and the huge expansion of money. The tighter you regulate banks, the greater incentive for people to come up with clever ways of bypassing the banking system and making a quick turn.

We need to be careful, though. I have one word of warning. In the end, Credit Suisse has been taken to the cleaners. I recognise that there are people whose businesses depended on this finance, and that is important, but commercial lending generally has not been regulated in the same way



HOUSE OF COMMONS

as the retail sector. Fundamental for that is caveat emptor. If investors lose a whole lot of money, well, more fool Credit Suisse.

You can try to regulate everything, but the more you regulate, the more you tighten up, the more that clever people will be ahead of the regulator. There is not a simple answer to this. I am not saying there has been fraud in this case because no one has been charged.

Dame Angela Eagle: People are very rarely charged with fraud. That does not mean a lot of it is not happening.

Lord Macpherson of Earl's Court: From what I hear, there may be quite simple entrées into this. People are prepared to break the law and do dishonest things. Quite frankly, whether they are regulated or not, they will find ways round the system. BCCI is a good example. I wish this Committee well in its inquiry and I hope you can be a force for creating a better system, but you only have to read Trollope's "The Way We Live Now", where rather hopeless members of the aristocracy are persuaded by Melmotte to make his Ponzi scheme look really good, to know that this has a long history.

Dame Angela Eagle: That is an interesting reference to our current ex-Prime Minister, who is in trouble. Lord Myners, you might just want to make those observations.

Lord Myners of Truro: I picked up three points from the last round of questions, and Lord Macpherson's very interesting and learned reply. I do not know whether this is going to come to a fraud case in the UK, but the German authorities certainly seem to be well ahead of the UK authorities in terms of their intervention in respect of the Greensill Bank. When I met Mr Greensill, the only meeting I had with him, he told me about future receivables. I am sure my eyebrows shot up. I then said, "But there is no trade. There is no transaction there". He said this was his edge: that he can anticipate transactions that will occur between parties who are not even aware of each other's existence.

Dame Angela Eagle: That is looking into the future, is it not?

Lord Myners of Truro: Yes, maybe that is fintech. I said, "Surely Credit Suisse does not accept that", and he said, "Credit Suisse has given me absolute discretion". Credit Suisse is charging a management fee of 0.15%, not a lot of money, but if you apply it to \$10 billion it comes up to a serious amount. As I said, that is why I left the building thinking this is a Ponzi scheme.

Let me give you one final example of the problems that can arise in this supply chain finance. One person can set up two companies, create a document that says that the left hand is buying a product from the right hand, but has 180 days to pay. You have a paper evidencing the transaction. With that bit of paper, you can trot off to Mr Greensill's fund and get money. There is no transaction; both parties are related, which is what we saw with the Gupta businesses.



Do not let SoftBank off here, because SoftBank was both lending to and borrowing from the Greensill fund. Why would they do that? Why would they let the fee come out of the middle? They were effectively laundering the credit risk. If they had lent direct to one of their investee companies, they would have the credit exposure, but, by putting it through the Credit Suisse/Greensill fund, the risk was left with the insurers or with Credit Suisse.

Q80 Dame Angela Eagle: How do we deal with this? Do we need different definitions of fraud, accepting that not all commercial transactions can be regulated? Our ability to enforce even our existing fraud laws means that these people are running minor risks. They can usually get away with vast amounts of profit before the whole thing collapses. What do we do about it?

Lord Myners of Truro: The first thing is to be aware of the risk, which we are now, and then to say that, if we address this wrongly, we will do great damage to the finance business and international practice. We have to find a way of squaring that circle and—perish the thought—we might let some people lobby us on how we could do that. As long as we do not deflect from our intention, that would probably be a good way of doing it. I have some ideas, like changing some of the culture in our regulators, but I do not have something I have prepared already in the oven to produce as the answer to this one.

Dr Bruce: The reason why the Germans are taking action is that Greensill Bank is registered in Germany as a bank, whereas Greensill here was not a bank. That is the difference.

Lord Myners of Truro: Extraordinarily, Mr Gupta was allowed to establish a bank, called Wyelands, after he had got an estate in Scotland, which he stripped out of one of the companies that he bought, where the funding was provided by the Government of Scotland. It was a Rio Tinto aluminium plant, at Lochaber, which also owned some shooting and hunting land. That was taken out of that, so he owns that personally now, while leaving the Scottish Government exposed to the liability. I did not include, Ms Ali, the losses to the Scottish Government in my earlier calculation of public losses.

Q81 Dame Angela Eagle: If you take Scotland into account, is that figure higher than £3 billion?

Lord Myners of Truro: I do not know the exact detail. I have also asked the UK Government whether this liability can, under certain circumstances, fall back as a contingent liability on the Treasury. The main message I am giving here is that we have to be very alert. I cannot see how Mr Gupta was given a banking licence, particularly when, within a very short period of time, the regulators began to get concerned because it seemed that he was lending only to his friends. The Bank of England has finally stepped in and required the Gupta bank to repay all its depositors. You might say, "Gosh, that is going to be a bit of a



problem for him". It is not, because at the moment he is not repaying Greensill. The money he is not paying, which he owes to Greensill, has meant that, in some respects, he is cash-rich at the moment. It is a strange world.

Chair: This is probably a question for Richard, as a follow-up on that conversation. We have this situation where Credit Suisse is taking risk on Greensill engaging in its activities, including future receivable arrangements, which seem highly suspect, as we have discussed. One of the reasons why Credit Suisse might initially have been doing that is that the insurance company is standing there, taking a lot of the risk, and, as I understand it, Greensill taking the remainder. Why was it that, presumably, a reasonably sophisticated insurer, whose business is understanding risk, would not have worked out what was going on?

Dr Bruce: I think they did. That was the point I was making. Last autumn, they announced their intention to withdraw and gave a period of notice.

Chair: But they did not initially. They went with it for quite a while, did they not?

Dr Bruce: Indeed, they did. It comes back to my wider point about audit. The information that one can get hold of about companies, even as a credit insurer, relies an awful lot on the honesty and openness of the people who are supplying the information. There is a problem there: that if you are sufficiently sophisticated you can draw the wool over the eyes of those who are normally well equipped to detect it. They did detect it, a bit late in the day, but it did come to that.

Lord Myners of Truro: The principal insurer was Tokio Marine & Nichido Fire Insurance, both in its own name and through its Australian subsidiary. I think they gave notice that they were not going to renew that insurance. In my view, that should have been advised to Credit Suisse, and Credit Suisse should have realised that the product was on a cliff edge in terms of risk. That does not appear to have been done.

Credit Suisse had no credit risk on this portfolio. This was an investment portfolio. They did not guarantee the performance in any way. Tokio Marine, according to the press, has said in court that the writing of the risk went beyond the authorised delegation of the employee in Australia, notwithstanding that that employee received a visit in his office in Australia from Mr David Cameron.

Chair: Thank you. That is helpful.

Q82

Felicity Buchan: I will come back in briefly on Greensill's contracts with the public sector. We alluded briefly to the pharmacy contract. Nick, do you think that supply chain financing makes sense for Government given the very cheap cost of Government financing in the gilt market?



Lord Macpherson of Earl's Court: As a general matter of course, I do not think it does. I have been digging out the papers for the pharmacy scheme because, sadly, it was set up when I was Permanent Secretary to the Treasury. My understanding is that there is a general pressure to make the NHS pay pharmacies more quickly. The Government responded to that and brought forward the payment terms. Historically, I think most of the payments were done within 60 days, some within 90 days, and they brought all that forward.

You would think that, with accruals accounting, this would have no impact, but, as far as the national debt is concerned, debt is accumulated in cash and the debt interest is in cash. If you bring forward payments, the Government have to borrow more and, therefore, pay interest on that debt. That is why, it is fair to say, the Treasury was a bit cautious back in 2012 about bringing forward payment terms too quickly.

At this point, Citibank turns up in the Cabinet Office. When this was set up, I think Greensill was still a Citibank employee. I am not sure precisely of his status; no one has ever been very sure of his status. What was attractive to the Cabinet Office and the Department of Health is that this was effectively a private sector intervention. Citibank would provide even earlier payments, voluntarily, to pharmacists, in exchange for the pharmacists giving up, say, 1% of the income, which actually was in a lot of their interest, because they were being paid so late that the cost of capital of that delay was something like 12%.

To make all this work, it required Government intervention. It required Government to guarantee the payment, so it was not quite a private sector activity. I think this was referred to the Treasury because it was novel, contentious and repercussive. As I understand it—and I have discovered, to my chagrin, that I was copied into this advice to the Chief Secretary—the Treasury was happy to go along with it because it did not cost the Treasury or the taxpayer anything. The Chief Secretary agreed to it and it took effect. In the Treasury's defence, thereafter certain other whizzy schemes came along, including one to do with defence contracts, where British Aerospace was going to get involved, and the Treasury was not having that.

You can argue that I am one of the guilty people who sat idly by and let this initial Citibank scheme come into effect. As I say, at that point it was a bank that was providing the finance, which is rather different from what happened later, which I am pleased to say was after my watch. My current understanding is that the Treasury was not consulted about Greensill taking on the subsequent contract, but the Treasury's paper-keeping system, perhaps because of my failures to maintain it, is taking a bit of time to get all the traffic out. I know only about the original advice.

Q83 Felicity Buchan: We have talked about how regulators, although admittedly it was unregulated, should have had alarm bells ringing. Should anyone in Government, given the fact that they did have these



HOUSE OF COMMONS

financing contracts with Greensill, have had alarm bells ringing three, six or nine months ago?

Lord Macpherson of Earl's Court: The original contract was with Citibank. Citibank, for all its faults, was a bona fide bank, and it was part of the Government's banking service. The interesting question comes when Greensill and this American fintech take over the contract. I cannot remember whether that was in 2016 or 2018; I think it was 2018. It would be worth understanding what diligence was done and why Greensill appears to have got the contract without it being competed. I am not certain about that. I do find the links between Greensill and the Cabinet Office worthy of exploration.

Thereafter, Paul was definitely on to something. Even I, as a casual reader of the *FT*, was beginning to pick up more and more things incoming about Greensill, through last year. It is interesting what was going on at that point, and it is not just Greensill. It is the whole Gupta family of companies and the bank. Greensill has a bank in Germany, but Gupta has a bank in Britain, which was authorised by the PRA. All these things raise questions. In the regulator's defence, at any point in time it was having to deal with many different things. Some of these things are outside the regulatory perimeter and, therefore, it is up to Parliament in a sense to decide. I know the regulators have quasi-statutory powers, but there may be lessons in that space.

Felicity Buchan: Paul, I know that you expressed your view earlier on the pharmacy contract. Do you want to add anything?

Lord Myners of Truro: It was a very odd contract. Greensill tried to sell it to the Australian Government. The memo that has been published in Australia was pretty damning as to why Government would ever want to settle its bills through a third party that was taking a cut.

Chair: That brings us to the end of what has been quite a long session, but none the less a very interesting and quite fruitful one. Thank you to all four of our witnesses, particularly David and Richard for demystifying the supply chain finance side of things, which got almost surreal at the end, when we were looking at future receivables, non-existent contracts and all sorts of other stuff, for providing a better understanding of why Greensill might have collapsed, and for outlining the very important implications of supply chain finance for the financial system and regulation, which we will be looking at in more detail as the inquiry progresses.

Nick and Paul, thank you for your comments on lobbying. There were lots of questions about David Cameron, Lex Greensill, Bill Crothers and others, but the main focus of this inquiry is on the Treasury, because that is the body for which we have oversight, and the critical question of whether it has handled this lobbying appropriately. I think I have heard from both of you that, subject to a very important caveat—that is, based on the information we have at the moment, and of course more



HOUSE OF COMMONS

information will come out in time—the Treasury appears to have behaved in a reasonably sensible way, in the way that it has handled the approaches made to it.

I think that is what both of you concluded earlier on in this discussion, but there are a lot more questions that we will be asking, and a lot more information that will come forward. We will be continuing to ask that question as we progress with the inquiry. Can I conclude by thanking you all?