HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Liberty Steel and the Future of the UK Steel Industry, HC 118

Tuesday 29 June 2021

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Watch the meeting

Members present: Darren Jones (Chair); Alan Brown; Judith Cummins; Richard Fuller; Paul Howell; Mark Pawsey; Alexander Stafford.

Treasury Committee member also present: Rushanara Ali.

Questions 214 - 439

Witnesses

I: Stephen Rose, Chief Executive Officer, Wyelands Bank.

II: Milan Patel, Partner, King and King.

III: Patrick Magee, Chief Commercial Officer, British Business Bank.

Examination of witness

Witness: Stephen Rose.

Chair: Welcome to this morning's session of the Business, Energy and Industrial Strategy Select Committee for our third hearing on Liberty Steel and the future of steel in the UK. We have three witnesses today each in turn, and we start with Stephen Rose, who is the CEO of Wyelands Bank. Good morning to you, Mr Rose.

Stephen Rose: Good morning.

Q214 **Chair:** Can I start with a question about your understanding of why Sanjeev Gupta bought Wyelands Bank in December 2016?

Stephen Rose: Yes. When I joined the bank in October 2019, I joined to help the bank implement the second phase of its regulatory business plan, which had a primary focus on developing its business for UK customers outside the GFG Alliance. The first phase, if I look back in the business plan to when Mr Gupta acquired Wyelands Bank, was that the bank would provide supply chain finance, 70% to 80% of which would be sourced from the GFG Alliance or from customers of the GFG Alliance.

When I refer to supply chain finance, what I mean is that the intention was that entities within the GFG Alliance would sell invoices to the bank. The bank would pay cash for those invoices, and the bank would then take the exposure to the buyers of the transaction and collect in the cash from the buyers. The intention was that, certainly for the first three years of the plan, the bank would be providing cash flow into the GFG Alliance by purchasing invoices.

Q215 **Chair:** It was bought as a private entity to help fund GFG Alliance businesses. Presumably, it could not have been claimed in the first phase to be independent of Sanjeev Gupta. He owned it; it was for his business interests; and it was his clients who were accessing supply chain finance.

Stephen Rose: As the regulatory business plan sets out, the bank was set up to be an independent business. While, as the ultimate beneficial owner, Mr Gupta would have input on the bank's strategy, the bank's day-to-day working was run by an independent board that was strengthened and built further over time. The bank had all its controls and compliance set up to run independently.

It is true to say that the majority of its business, as was intended in the regulatory business plan, was sourced through GFG Alliance. That is not that unusual. Several large industrial companies have finance houses that provide finance through to customers. They still run operationally and from a governance point of view in an independent way. The bank was independent and did run itself independently. From when I joined in October 2019, I have seen the bank perform that function independently.

Q216 **Chair:** In phase one, what proportion of the bank's clients were GFG

Alliance customers?

Stephen Rose: If I can describe that in terms of the volume of its business when it was buying the invoices from those clients, it was roughly 80%, or something like that.

Q217 **Chair:** It was 80% in phase one. You said that in phase two you had to diversify to other clients. Since the start of the phase two process, how has that percentage changed?

Stephen Rose: The percentage has not changed a lot, because phase two was just being implemented and made live post my joining, which was in October 2019. The PRA placed restrictions on the bank about the same time as I joined. In reality, while we had built the capability to deliver the second phase, we were not able to roll that out and give additional support to non-GFG introduced businesses at that point. There were only two clients at that point that were in the new model, as it were, of being UK-introduced.

There were in the first phase other invoices purchased that were not connected to GFG, but the second phase of the business plan never really had a chance to get going. Once the board had decided in March to go down the path of collecting in the first-phase balance sheets, which we refer to as the solvent winddown plan, we were not putting new business on until that had completed. Our focus changed, and my focus was then on collecting in the business so we could repay our depositors safely.

Q218 **Chair:** In May 2020, Mr Gupta lent the bank £75 million. About half of that has been converted to equity. What has happened to the other half?

Stephen Rose: The other half remains as a subordinated obligation to be repaid to Mr Gupta. I emphasise that it is very heavily subordinated. All other creditors would be met and repaid first. The money is not due back to Mr Gupta before any other creditors have been repaid. It is more likely, given the trajectory we are on to complete the solvent winddown plan, that the outstanding loan would be used to purchase back some of the outstanding invoices from GFG rather than be paid back as cash.

Q219 **Chair:** There is some concern about how the corporate governance of GFG Alliance is very unusual. There is this issue about whether different entities are related parties and what that means for regulatory compliance in terms of lending regulations. Do you have any views on how the bank lent to GFG Alliance entities in the context of what are related parties? As a consequence of your view of that, did you lend in a way that was different to perhaps a commercial bank?

Stephen Rose: If I can draw on my work on the connected parties, which really began around June 2020, we looked at the book that was outstanding at that point, which would have included SSUK and Liberty Steel. When we completed that work, we identified that some of the initial connected-party analysis that had been done was insufficient in some respects. That mainly reflected the way in which the company had been going through fast growth and reflected where some of the training initially could have been better for some of the team.

As a result of that, we reached a different conclusion on the level of connectedness than the initial team had done. That partly reflects the fact that some of the buyers had developed trading relationships that were different to what was expected and therefore had become connected. It also reflected that some of the facilities were not operating as they were expected to.

GFG companies were not treated differently, but there were challenges with how the initial connected-party assessment was done. In retrospect, the facility should have been set up with more robust safeguards—we would have referred to those either as conditions precedent before the facility went in or conditions subsequent after the facility had been put in—that would have protected the book from increasing connectedness over time, which is what we saw.

Q220 **Chair:** Initially there were related parties that the bank did not identify as being related parties, and when you redid the work it turned out that they were.

Stephen Rose: I am not trying to be pedantic here, but there is a difference between "related" and "connected". "Related" refers to essentially a control relationship and forms the basis of what we file in the accounts. "Connected" has two elements in the test, one of which is around control and the second of which is really around economic dependency. It was the economic dependency that developed over time, rather than changes in the control relationship, which would have meant we would have had a different view of related parties.

Q221 **Chair:** To be clear on that, there is a concern that a number of companies were owned by friends of Mr Gupta, even if Mr Gupta was not a listed director at that company. You would not deem that relationship to be a related party but perhaps a connected party if, for example, that entity was wholly reliant on income from the other one.

Stephen Rose: That is right. We would not have deemed it to be related. If it turned out that it had levels of economic dependency on other parts of GFG, we would have connected it. When we completed our review in June 2020, we did identify that some of the counterparties were either trading between one another or trading with a third party not related to the bank at all, or had developed common sources of funding. In different ways over time those entities had demonstrated economic dependency. As that was identified, that was included in our reporting. Certainly from June 2020 we reported as connected those amounts that were outstanding.

Q222 **Chair:** That is what you meant just now when you said that some of those entities were operating in a way that you had not expected initially.

Stephen Rose: The ways in which they operated did contribute to the increase in connectivity. They contributed in two main ways. First, a supply chain transaction itself is fairly straightforward, but it depends on people operating it with discipline: sending the right documents at the right time, creating the right invoices at the right time, et cetera.

The way the facility was being operated meant that the bank was not getting its security, in legal terms. That problem with getting the bank's security meant it lost the ability to view the exposure as being with the buyer and then had to look through to the seller. That was a principal issue that created connectivity. Mechanically, the transactions were not being completed in the way that they were expected to complete when the transaction was entered into.

There was a second problem area in terms of how the facilities were operating. In some cases in a facility with supply chain finance, it is a common and important factor that, when cash comes in on the assets you finance, the cash is sent to the bank. There were occasions when that cash was not returned to the bank in a timely fashion. As a result of that, they had breached the terms of the facility, and therefore the level of connectivity went up.

Q223 **Chair:** Since you have done this review of related and connected parties, and taken what sound to me like sensible decisions, which you have just explained, Mr Gupta's GFG Alliance confirmed that it was reviewing its relationship with Wyelands Bank. Do you understand why it has decided to review that? What has the outcome of that been so far?

Stephen Rose: The collapse of Greensill inevitably means that, as an ultimate beneficial owner, Mr Gupta has much higher priorities in terms of looking after thousands of people's jobs in the steel industry. I am sure that is a higher priority than being able to provide additional funds to relaunch the bank. That is a priority one can understand.

The result of it is that we now are not able to relaunch the bank with financial support from Mr Gupta, and I am in discussions with some parties who may look to acquire the intangible assets of the bank or may look to take over some of the people from the bank, as clearly we have a readymade team who can run a bank and who have demonstrated that they can adapt to some difficult circumstances. We will see where that goes.

Q224 **Chair:** It is not that Mr Gupta has walked away from you because you are no longer helpful to him, right?

Stephen Rose: No, not at all. I do not have that impression at all. In my dealings, I have always found Mr Gupta to be straightforward. No sense of that has been put over. In fact, on a personal level, when I had a family bereavement he offered very good personal support. I do not think he just walked away from this, no.

Q225 **Richard Fuller:** I just have a couple of quick follow-ups. Mr Rose, on this issue of the reclassification, could you just confirm whether that was because the businesses involved changed their relationship or because your review was more thorough?

Stephen Rose: If I am honest, in retrospect—you have to bear in mind that I am looking with the benefit of hindsight here—it is a bit of both. We had clear evidence that new trading relationships appeared to develop. As I said, they were not always between one another; they could be with a completely independent third party but happen to be the same. We would identify that through things like debtor lists, and we would see common names on the debtor list and things like that. Another example might be where they took common sources of finance. It became clear as we went through 2020 that some of the counterparties had funding from Greensill. Once we could see what happened to Greensill, that meant we connected those entities.

So there were changing circumstances over time that increased the levels of connectedness, but we do recognise—again, I have to say that this is with the benefit of hindsight—that some of the earlier work was deficient in some respects, partly because it was very difficult for them to get some independent information as some of the parties were relatively new. It is also something where we put a lot of effort into training, developing and taking professional advice, which meant we were in a stronger position to do the testing.

Q226 **Richard Fuller:** If I take a specific example that you may have to mind, the relationship with Platinum Commodities and BCL Commodities, are you aware of at what point Wyelands became aware of the connection between those two businesses and GFG? How were they classified originally and how do you classify them now?

Stephen Rose: They were originally classified as not connected, because there was no control dependency between them and GFG, and there was no economic dependency identified in the initial review. When we completed our review in June 2020, we had identified that their facility was one of those where they were not operating it in the right way and where some of the stock that was being sold was part of those agreements without the cash being passed to the bank. Because of that, we deemed that the exposure was actually to SSUK rather than to those companies, and we therefore connected them.

That was not because there was change in control relationship, but because the way in which the facility was operating, we felt, meant that in reality the exposure was to SSUK. We have since been trying to collect in that outstanding amount.

Q227 **Richard Fuller:** You did not mention that the principals of those two businesses, Mr Delgoda and Mr Occhi, were longstanding associates of Mr Gupta. Was that not a factor in your evaluation?

Stephen Rose: It is a factor, but in itself it is not a decisive factor. People know each other from the golf club or something, and they make transactions.

Q228 **Richard Fuller:** They do not lend each other £10 million. I do not know what golf club you go to, but I do not go down to play golf and get 10 million quid.

Stephen Rose: I do not play golf at all.

Richard Fuller: Perhaps it is not a very good analogy, then.

Stephen Rose: No, maybe not. What I am trying to draw out is that the fact that people know one another, in and of itself, does not mean there is a control relationship or an economic dependency. Our testing was looking very specifically at those items. As I said, from our review in June 2020 we connected those loans and any reporting from that point has been connected.

Q229 **Richard Fuller:** You confirmed in answer to a question from the Chair that Mr Gupta lent the bank £75 million. Where did Mr Gupta get the money from?

Stephen Rose: I would not know specifically where Mr Gupta got the money from. When we received cash, we validated the source of funds as being from an appropriate account and we completed our normal KYC tests. We are happy it came from Mr Gupta. We would not attempt to find out—because it is not part of our business—where those funds were sourced from.

Q230 **Richard Fuller:** But you undertook all the appropriate tests—KYC et cetera.

Stephen Rose: Yes, we did. It was also monitored closely by our regulator, because it wanted to ensure as part of the solvent winddown plan that the work was properly completed.

Q231 **Richard Fuller:** You mentioned that 70% to 80% of the business of the bank was with GFG businesses. What was the maximum percent of the bank's core capital that was exposed to GFG Alliance companies? Was that 70% to 80% or was it a different figure?

Stephen Rose: As a statistic, I do not have that to hand. I would be happy to provide it after the hearing. What I would say, if this helps—hopefully it will help—is that when we completed the connection analysis in June 2020 the largest connection we found was circa £100 million.

Q232 **Chair:** Mr Rose, it was reported that the bank lent £64 million to buy a property in Mayfair, which essentially was the head office of GFG Alliance. That was a very significant percentage of your capital base at the time, was it not?

Stephen Rose: It was. I can refer to the description of the transaction from my review of the records, as I was not there when the transaction was completed, but the acquisition of the property was a high-quality asset. It was acquired from a third party, so it was not the case that funds were not going into the GFG Alliance or anything like that. It was acquired from a third party. The bank collected high levels of rent from that property throughout the period it owned it.

The bank also benefited from having made that decision to acquire the property, because, when the bank decided to implement the solvent winddown plan that I referred to earlier, it then clearly had to liquidate its assets to generate high-quality liquid assets so we could repay our depositors. We were able to sell the Maddox Street property just as the pandemic started to have a major impact. One of the impacts of the pandemic on the bank was that it locked the markets where many of the invoices had been acquired from. It was actually quite difficult for the bank to generate liquid assets during that period, whereas the sale of the property did generate over £55 million of cash, which was a vitally important component of the bank being able to repay all our depositors in March of this year.

Clearly, nobody had foreseen the pandemic, but it was nevertheless, as it turns out, a useful purchase. The bank did lose on the sale of the transaction—I am not trying to hide from that—in the sense that the sale price was less than the original purchase price, but in the meantime the bank had received rental income from that property that was all paid appropriately, so the cash loss was actually quite minimal and it was very important to help with the liquidity of the bank.

Q233 **Chair:** It may have been useful with hindsight, but I am interested to understand how your relevant decision-makers at the time decided to spend what I understand to be around 50% of your capital base on a building for GFG Alliance. If any other bank did that, that would be a very significant unusual event, would it not?

Stephen Rose: It would certainly be a significant event.

Q234 **Chair:** And unusual. Do any of the other banks lend nearly half of their capital base to buy a building for one client?

Stephen Rose: I would not know.

Q235 **Chair:** It is unusual. If you could help me understand this, how did Wyelands Bank decide to do that? It seems strange.

Stephen Rose: From the records that I can see, because clearly I was not there at the time, it was identified as a good-quality asset for the bank to buy. It was generating significant rental income and, as I say, it played a useful role in meeting the requirements to repay our depositors.

Q236 **Chair:** Who suggested to the bank that it should buy the building?

Stephen Rose: I do not know the answer to that, because I was not there at the time.

Q237 **Chair:** That was not minuted in the documents when your bank made this decision to spend half of its capital base on one asset.

Stephen Rose: It may have been. I cannot recall it.

Chair: You cannot recall it. If maybe you could check with colleagues and write to us about that, I would be keen to know the answer. Thanks, Mr Rose.

Q238 **Paul Howell:** Mr Rose, touching back on supply chain finance for a second, you have talked about the simple principle that the bank buys the invoices and facilitates the cash. Normally there is a cost to that in terms of a commercial rate, a discounted value for the invoices or something. Was that at a commercial rate or was it any different because of the relationships that were there?

Stephen Rose: The rate I observed was what I had seen in other companies. It looked like a commercial third-party rate. I saw no evidence that it was anything other than that.

Q239 **Paul Howell:** Moving on to a broader understanding, can you tell us how much money was provided up front by Wyelands Bank to Liberty Speciality Steels over the last three years?

Stephen Rose: The amount varied over time, but, broadly, the amount lent to SSUK was circa £40 million, give or take. It is that sort of amount.

Q240 **Paul Howell:** Each year?

Stephen Rose: Yes. I do not mean that we lent £120 million by the end of it. About £40 million was lent into the facility, and that amount stayed broadly the same over the period. About £20 million of that was then repaid to the bank, but that was repaid as part of the solvent winddown plan. It was running at about £40 million during the normal life of the bank, and then it has come down to about £20 million.

Q241 **Paul Howell:** It is at about £20 million now.

Stephen Rose: Give or take, yes.

Q242 **Paul Howell:** All the conversation so far has been about supply chain financing. Was any financing extended to be used in the purchase of steel assets or businesses by GFG?

Stephen Rose: If I have understood what you are meaning correctly, no. Let me just add this, to make sure I am understanding your question correctly. In acquiring the invoices, the security for those invoices was typically steel stock. There were assets that were financed in the sense of ingots and blooms of steel, and things like that, but not furnaces, buildings, property or anything like that. I hope that helps.

Q243 **Paul Howell:** Yes, the difference between a working capital-type asset and a fixed capital asset. You are saying it was all on the working capital-type assets.

Stephen Rose: Yes, absolutely.

Q244 **Chair:** On the working capital, how did you verify the steel that was being sold between various companies?

Stephen Rose: We did stock checks, and we were supported by a third party in that.

Q245 **Chair:** You have records where you would check the stock and there was steel in a container or something.

Stephen Rose: Correct.

Q246 **Chair:** There were some reports of concerns about trading between different group companies, where ultimately the steel ended up back with the Liberty Steel Newport entity. It sold the steel to another entity, which sold it to another entity, and then it was sold back to Liberty Steel Newport but with supply chain financing raised at two points in the journey. Is that unusual?

Stephen Rose: We saw no evidence of that in any of our work, in the facilities that we had.

Q247 **Chair:** What is your understanding of future receivables?

Stephen Rose: We do not fund future receivables and I would not ever do so.

Q248 **Mark Pawsey:** Mr Rose, Mr Gupta acquired Wyelands Bank in 2016. Is that right?

Stephen Rose: Yes, that is correct.

Q249 **Mark Pawsey:** Could you tell us about the audit history of the bank? Who has provided audit?

Stephen Rose: The auditor for the bank, certainly when I arrived, was PricewaterhouseCoopers. I believe they were the auditors from the start. Forgive me if I am mistaken, but I am pretty sure that they were the auditors from the start. They resigned after completing the 2019 audit and Mazars was our auditor for the 2020 audit.

Q250 **Mark Pawsey:** Mazars is still the auditor.

Stephen Rose: It is still the auditor, yes.

Q251 **Mark Pawsey:** Why did PwC stand down?

Stephen Rose: The reason they gave to us was that they had a perceived conflict of interest, which, as I understand it, was because they were pursuing other business with GFG.

Q252 **Mark Pawsey:** There are some media reports suggesting that the lending practices of Wyelands made some audit firms reluctant to audit the bank. Do you accept that?

Stephen Rose: I cannot speak about what was on the minds of other audit firms. I was not surprised, with the amount of media reporting around the GFG Alliance as a whole, that several other audit firms declined the opportunity, but it was essentially explained to us that, because the audit was at the peak time in the audit year, they did not have the resources to do it.

I personally am extremely grateful that Mazars helped us secure the repayment of our depositors and run our facilities by providing us with a thoroughly professional audit on the March 2020 accounts, without which we would not have been able to continue to run the bank and to repay all our depositors with interest to term.

Q253 **Mark Pawsey:** You do not believe that the connectedness that you have referred to earlier and the general concerns about the situation at GFG had any hand in audit companies declining to work on the audit of Wyelands.

Stephen Rose: You are asking me to give conjecture that I cannot give. I cannot explain why they decided that. They made their decision. It was not communicated to us in that way.

Q254 **Mark Pawsey:** If I could now turn to the Prudential Regulation Authority's investigation into the relationship between GFG Alliance and the bank, those concerns of course were referred to the National Crime Agency and the Serious Fraud Office. Why do you think that was?

Stephen Rose: I note the comments that were made by the PRA in evidence to the Treasury Select Committee in which the Deputy Governor declined to give any further information, because he did not want to prejudice any of that work. I am in the same position. I cannot give you any further information on that. I have had no contact from the National Crime Agency. Clearly, I cannot make any reference to something for fear that it is prejudicial.

Q255 **Mark Pawsey:** What do you think the CEO of the Prudential Regulation Authority meant when he said in his evidence session to the Treasury Select Committee, "The more we dug, the more concerned we became"?

Stephen Rose: It was clear from the correspondence when I arrived that, whereas the PRA had approved the original regulatory business plan, which clearly sets out that the original source of the supply chain funding would be the GFG Alliance, it then became concerned about some of the internal systems and controls around the connected-party work. It also had other concerns. I am assuming that that was what he was referring to.

As was made clear in that testimony, they raised restrictions over the bank reflecting those concerns. The bank has fully supported the PRA in all of its information requests, including the unannounced visit that he referred to in the Treasury Select Committee. We have provided information and data throughout, and we will continue to support any work that they want us to do.

Q256 **Mark Pawsey:** Mr Rose, you have worked in banking and finance for many years. Are the things that you are talking about to us now usual, in your experience?

Stephen Rose: I am fortunate to have had a long and varied career, and I have not been in a company that was so young in its growth before. The challenges that I have seen here reflect a lot—

Q257 **Mark Pawsey:** Are the issues of concern purely because the business was a young business or are they because of other factors?

Stephen Rose: The fact it was a young fast-growing business is a major factor to it. I joined the bank to help take it through the second phase of its plan and to help it fix the problems that had developed in the first phase. I came to help fix it.

Once it became clear that the only way forward would be to collect in that first phase of the balance sheet, because it was overconcentrated and the problems needed to be fixed before we could go on, I then led the work to collect in the balance sheet. I am very proud of the fact that, with my team, through a global pandemic we managed to collect in enough cash so that all our depositors were paid with interest to term without any call on the FSCS. In that regard, this has certainly been one of the more challenging times in my career, and I am proud that my team stood up to that challenge.

Q258 **Mark Pawsey:** Mr Rose, you had to carry out that work because the Prudential Regulation Authority ordered the bank to repay £194 million to its retail depositors. Have you ever known that to happen before with a bank? Have you ever received that instruction?

Stephen Rose: For a moment, I need to step back a little bit. Just give me a minute to position where we got to, to get that request from the PRA.

Q259 **Mark Pawsey:** It was an order, Mr Rose, not a request.

Stephen Rose: I will use the right language. I apologise—the order. In February 2020, the independent non-executive directors of the bank had met and determined that it was necessary to collect in that first phase of the balance sheet and implemented the solvent winddown plan. They determined to have a solvent winddown plan before they then consulted the PRA to get its clearance for that, and then they informed Mr Gupta, as ultimate beneficial owner, that they would be doing that.

They acted independently to instigate that solvent winddown plan. That solvent winddown plan would always culminate in the repayment of the depositors. We were repaying the depositors and had taken positive actions throughout the period to reduce the size of the depositor book. Through the actions we had taken and by collecting in the cash as we did, we were in a position to repay the depositors. At the time, we were repaying the depositors to term when those deposits matured. The reason we were doing that was that many depositors plan their financial arrangements around when they receive the cash, for their tax affairs or whatever, so we did not want to disturb their financial planning by forcing the payment back.

Clearly, the PRA was aware, or I assume it was aware, at that point of information about what was happening at Greensill. I assume that the impact of Greensill collapsing on our ultimate beneficial owner meant that the PRA was concerned that there could have been contagion; therefore, it wanted us to repay the depositors much more quickly; therefore, it issued the order to repay.

If I had been in their position, I would have reached a similar conclusion. I completely get why they did that. We were not privy to that information, so we could not make that decision. What we did do was operationalise that request as soon as it came through. I do not know any other bank that has managed to fulfil an order like that in less than three weeks and repay all of its depositors.

Q260 **Mark Pawsey:** This is the first question: how many other banks do you know of that have ever been required to fulfil an order such as that? We know it is highly unusual. You are suggesting that the problems arose because of the relationship with Greensill and nothing that was fundamentally wrong within the operation of the bank. Is that what you are saying to us?

Stephen Rose: I am saying that the timing of the repayment of the depositors, I believe, was because the PRA was aware of the problems, potentially, going from Greensill to where we were.

Q261 **Mark Pawsey:** Are you suggesting that the PRA had no concerns, then, about the operation of Wyelands Bank?

Stephen Rose: No, I have not said that at any point.

Q262 **Mark Pawsey:** So it did have concerns about the operation of Wyelands Bank, in which case, what were they?

Stephen Rose: As I explained, the concerns, as I understand them, from the PRA were around the operations of systems and controls to determine the level of connectedness in the bank’s exposures. That is looking at the buyer side of the transactions that we carried out. When we completed our assessment in June 2020, we agreed that there were deficiencies in the original versions of the reporting, which we then put right.

Clearly, by this point, we were also in the middle of the global pandemic. One of the impacts of the global pandemic was to exacerbate the delays in repayments. Because of the delays in repayments, clearly, the board shared the PRA’s concern to make sure that our depositors were protected by collecting in those payments so that they could be repaid and not left exposed. When the order was made, we had collected in enough cash to repay them. They would have been repaid over time. That is why I think that the primary concern the PRA had was the risk that events in Greensill might cause things to spiral out of control.

Q263 **Chair:** Mr Rose, when you joined Wyelands Bank in 2019, what attracted you to the role?

Stephen Rose: I was looking to move to a London-based role. I had been out of the City for some time. The opportunity at Wyelands came up. I knew they were having some challenges with their growth plan. As I am towards the later years of my career, I thought I had something to add and I could help them to resolve those challenges.

Q264 **Chair:** How did you find out about the role? Did a recruiter get in touch? Was it on LinkedIn? How did you find out about it?

Stephen Rose: It was through a recruiter.

Q265 **Chair:** Did you have any personal or professional connection with Mr Gupta before you took on the role?

Stephen Rose: No, none at all.

Q266 **Chair:** It was reported in the most recent accounts for the bank that you have doubled your expected credit losses, which I am assuming is coming from defaults on the supply chain finance side of the business. I am quoting here. It says that "information and events that have developed since 30 April 2020, and that were unforeseen at year end", have led to that doubling of the credit losses. Could you add a bit more colour to that? What factors led to the doubling of your credit losses in your latest accounts?

Stephen Rose: The contributing factors were several, I guess. There were some exposures where enforcement of our security, because the buyers were based in overseas territories, has proved to be extremely difficult and some legal decisions were taken in those jurisdictions that we did not expect.

Secondly, we had expected there to be refinancing for some of the facilities, like SSUK and the steel facility. We had expected there to be some refinancing, which did not then materialise, ultimately because of the challenges in Greensill, but that meant we took the view to increase the level of provisions.

Q267 **Chair:** Let me just check. Forgive me if I have got myself confused here. You had lent money on the basis of an invoice for something that would later be paid to you by a company that was waiting to be financed by Greensill and, because of the Greensill collapse, that company was unable to pay you the money that you had already paid out for the original invoice. Is that right?

Stephen Rose: No, I apologise. That was not what I meant. I will try to be more clear. While we had originally believed that we could rely on or take as our exposure point the buyer, if we had made the decision on the connected-party analysis that the true exposure lay with SSUK, we then had to look at, for example, SSUK and make a decision on its financial strength. Once the Greensill collapse had occurred, our assessment of the financial strength of SSUK had to be reduced and, because we were now showing our exposure to SSUK, we therefore had to increase the provision.

Q268 **Chair:** I see. The connected-party analysis essentially shrunk the amount of money that was available in the network of companies that you were analysing.

Stephen Rose: Yes.

Q269 **Chair:** The bank also said in May that it was looking to engage investors to buy the bank. You have alluded to that already. Do you have any updates on that that you would like to offer to the Committee?

Stephen Rose: It is extremely unlikely that the legal entity of the bank would be sold to anybody, not least because the operation of change in control is now such that a change in control is not an easy path to a licence. There would be no gain to somebody acquiring the legal entity of the bank.

What we are endeavouring to see is whether there is any value to anybody in using the intangibles that the bank has developed, predominantly around the remediation of the issues that were raised by the PRA and its people, if somebody wishes to take those into a new legal entity. We do not think the legal entity of the bank will have a future.

Chair: Thank you, Mr Rose. That is the end of our questions for you this morning. Thank you for taking the time to be with us. We are grateful to you. We will say goodbye to you, Mr Rose.

Examination of witness

Witness: Milan Patel.

Chair: We will now welcome Milan Patel, who is a partner at the audit firm King and King. Good morning, Mr Patel.

Milan Patel: Good morning.

Q270 **Chair:** This is my first question to you. According to the media, King and King has two chartered accountants. Is that correct?

Milan Patel: We are a firm of six partners.

Q271 **Chair:** There are six partners and two chartered accountants.

Milan Patel: We are two chartered accountants and four chartered certified accountants.

Q272 **Chair:** Has that been the case for a long time or has that number changed recently?

Milan Patel: We have been between five and six partners for about 20 years.

Q273 **Chair:** I wondered if you could explain to the Committee how long you would expect an audit of a company to take. You could take one of the examples that we are clearly interested in, Liberty Steel. How much of a partner's time would be taken up dealing with an audit of one of these companies?

Milan Patel: Generally, most of our audits probably last two to six weeks. In terms of partner time, it is probably three to 10 hours for an audit.

Q274 **Chair:** It is three to 10 hours per partner on average for two to six weeks for an audit.

Milan Patel: That is right.

Chair: We will come back to some of that in a second.

Q275 **Mark Pawsey:** Could I just ask you, Mr Patel, about King and King itself? As an organisation, you have filed accounts as a dormant company since 2011. Can you explain to us perhaps how King and King qualifies as a dormant company?

Milan Patel: King and King Chartered Accountants is a partnership. We have a dormant company that has never traded. It is just a company that we set up many years ago in case we wanted to trade as a company, but we have never used that company. We were established in 1956 and have been going on for 65 years.

Q276 **Mark Pawsey:** As of last week, you are no longer listed as dormant at Companies House. Why did you change?

Milan Patel: Are we not listed as dormant?

Q277 **Mark Pawsey:** As of last week, you are no longer listed as dormant at Companies House. Is that right?

Milan Patel: No, that should not be the case.

Q278 **Mark Pawsey:** You continue as a dormant company.

Milan Patel: We continue as a partnership.

Q279 **Mark Pawsey:** Okay. You have just spoken about the partners working on the audit of GFG Alliance. How many partners worked on those accounts? You said you have six partners in total. Would every partner have been involved in the GFG accounts?

Milan Patel: I do not know whether you are aware, but I do not have consent to talk about GFG or the Liberty companies, but, generally, you would have at least two partners involved in most audits.

Q280 **Mark Pawsey:** There would only have been two partners at any one time exposed to the activities of GFG.

Milan Patel: As I say, I cannot talk about GFG, but generally we are auditors to a specific company unless we are auditors to a group. Where we are auditing a company, there would generally be an engagement partner and a technical partner, and we would have a team underneath that.

Q281 **Mark Pawsey:** Can you tell us which of the partners were responsible for the accounts for the last year—the most recent accounts? Which two partners were responsible?

Milan Patel: It is public knowledge that I am the engagement partner, so I am the partner responsible for signing off audits.

Q282 **Mark Pawsey:** At Companies House, there are over 100 companies with Mr Gupta listed as an active director. How many of those 100-plus companies were audited by King and King?

Milan Patel: I am not sure I can answer that question. We do not audit all the companies of Mr Gupta.

Q283 **Mark Pawsey:** King and King audits all the companies of Mr Gupta.

Milan Patel: No, we do not.

Q284 **Mark Pawsey:** Right, okay. Who are the other auditors, Mr Patel?

Milan Patel: I would not know all the auditors.

Q285 **Mark Pawsey:** You know which companies you audit.

Milan Patel: Yes.

Q286 **Mark Pawsey:** But you do not know who the auditors are of other GFG companies.

Milan Patel: I have read in the press and that, but I have not gone out to find out who the auditors of all of Mr Gupta's companies are.

Q287 **Mark Pawsey:** What proportion of Mr Gupta's companies does King and King provide the audit for?

Milan Patel: I would not know the percentage, because for all our clients we are appointed for each individual company that we act for.

Q288 **Mark Pawsey:** How many GFG companies do you provide the audit for?

Milan Patel: Your statement of "GFG" is difficult first of all because GFG is not an entity. When there is talk about GFG, it is a little confusing in terms of what we are talking about.

Q289 **Mark Pawsey:** Let us talk about the companies where Mr Gupta is registered as an active director. We know there are over 100 of those. How many of those companies, where Mr Gupta is an active director, does King and King provide audit facilities for?

Milan Patel: I would not have the information with me at the moment, but it is something that we can provide.

Q290 **Mark Pawsey:** Okay, you will provide that information in writing to the Committee.

Milan Patel: Yes.

Q291 **Mark Pawsey:** Thank you. GFG Alliance is a pretty substantial organisation. It accounts for, we understand, something like £2.5 billion of revenue. Is King and King of a sufficient size to be able to deal with an entity of that size?

Milan Patel: Due to the confidential nature, I cannot talk about GFG, but generally, in terms of audit and that, it is a matter of the resources that an organisation would have to deal with an individual audit.

Q292 **Mark Pawsey:** Is your firm, with six partners, of a sufficient size to deal with any organisation representing £2.5 billion of revenue?

Milan Patel: Yes, we are capable of doing that as an organisation.

Q293 **Mark Pawsey:** As a chartered accountant, is that a usual situation? Would it be usual to find a firm with six partners auditing a group of companies the size of GFG Alliance?

Milan Patel: Just to correct you there, it is not a group that we are auditing. We are auditing some companies.

Q294 **Mark Pawsey:** You are going to tell us the proportion of the GFG business in writing.

Milan Patel: As a firm, we have many clients who have hundreds of millions of pounds of turnover. It is not unusual for a firm of our size to have clients that have hundreds of millions in turnover.

Q295 **Mark Pawsey:** May I ask you how many other clients you have with, let us say, for the sake of argument, more than £1 billion of turnover?

Milan Patel: I could look it up. I do not have the details at hand. Like I said, we do not audit a group. We audit individual companies.

Q296 **Mark Pawsey:** Okay, but you do not audit any groups with a turnover of £1 billion.

Milan Patel: I would have to check.

Q297 **Mark Pawsey:** But you do not know.

Milan Patel: I do not know that particularly, because I am not the only partner. We have many clients in the firm, so it would all depend on—

Q298 **Mark Pawsey:** You are suggesting to us that there is nothing unusual about companies the size of those that you audit within the GFG Alliance being audited by a firm of your size. You think that there is nothing unusual about that.

Milan Patel: No, there is nothing unusual, because, as I said, we do not audit the group. We audit individual companies.

Q299 **Mark Pawsey:** Okay, and there are lots of other firms of six partners auditing companies of the same size as the part of GFG Alliance where you carry out the audit.

Milan Patel: It is absolutely possible.

Q300 **Mark Pawsey:** Is it possible or likely?

Milan Patel: It is likely.

Q301 **Chair:** Mr Patel, you just said that you do not have consent to talk about GFG or Liberty. Who told you that you did not have consent to talk about them?

Milan Patel: It was the lawyers of GFG.

Q302 **Chair:** GFG's lawyers wrote to you and said you were not allowed to speak about GFG or Liberty Steel.

Milan Patel: That is right.

Q303 **Chair:** Coming back briefly on the status of King and King Ltd, we checked Companies House, and King and King Ltd was dormant for many years until last week, when it was made active. Given the size of your group—there are six of you—you surely know that somebody filed paperwork at Companies House to make the limited company active after all these years. I just wonder whether you might explain why you did that.

Milan Patel: That must be a mistake. I think they were just filing a confirmation statement that the company continues. We are not trading under the name of King and King Ltd.

Q304 **Chair:** It is not a mistake, Mr Patel. It is on Companies House. It went from dormant to active last week.

Milan Patel: I do not understand when you say "active". Even a dormant company is still active at Companies House. The registration and all the details continue. "Dormant" means it is not trading, and we are not trading under the name of King and King Ltd.

Q305 **Chair:** Right, thank you for that. One of the issues I just want to pursue with you here is the number of companies that you provide audit services to. You said to me earlier that, on average, it takes two to six weeks to do an audit and you have six partners. You could not confirm how many of your partners were acting on GFG companies, but let us take a generous assumption that all of your partners are acting for GFG companies and assume, perhaps generously, that you work five days a week and seven hours a day. I am sure you work some late nights and possibly weekends, but let us just take that as a basic example.

There are 253 working days in the year, which means that, between the six of you, working seven hours a day, you have about 10,000 hours a year to do the audit work. If it takes around six weeks to do an audit of a company, that is about 200 hours per company. On average, you could maybe do 50 companies a year. Is that right?

Milan Patel: No, sir. When I say you need that time to do an audit, I do not personally do the audit. We have a whole team that does the audit. I am the engagement partner and I—

Q306 **Chair:** Who is in the team? You told me there were six people at King and King. Are there others?

Milan Patel: No, there are six partners. We have a team of about 40 people working for us.

Q307 **Chair:** You have 40 other members of staff.

Milan Patel: That is right.

Q308 **Chair:** How many of them are working on the GFG companies?

Milan Patel: That is confidential. What I would say is that we have over 25 qualified staff, who are either chartered accountants or chartered certified accountants.

Q309 **Chair:** Okay. I want to refer to some analysis of the number of GFG companies that King and King is listed as being the auditor of. I am looking here at a database called Orbis, which does some whizzy assessment of the number of companies. According to Orbis, there are 944 companies that King and King either has acted for in the recent past, i.e. since 2018, or is still acting for as auditor. There are about 944 companies in total according to this service. Out of those, 455 are currently listing you as the active auditor, of which about 60 are listed as GFG Alliance. Does that sound familiar to you?

Milan Patel: Not at all, no. We probably have companies that we act for as accountants, not as auditors. We do not have 450 audit clients.

Q310 **Chair:** You have 59 companies that are part of the GFG Alliance as your customer.

Milan Patel: That is possible.

Q311 **Chair:** According to the analysis of company records, it is 59 GFG Alliance companies since 2018. Surely, as the engagement partner, you would know who your clients are. You do not know this.

Milan Patel: Of course I do.

Q312 **Chair:** Is 59 correct?

Milan Patel: It is possible. It is public data. I would have to look at the latest list. We can confirm that.

Q313 **Chair:** Okay, thank you. There are then a further 11 companies, based on this analysis, that are companies connected to GFG Alliance. These are entities that are owned and operated by people associated with Mr Gupta, which sell and transact with each other. Does that sound familiar with you?

Milan Patel: That would be confidential. These are clients.

Q314 **Chair:** I am not asking you for names, Mr Patel. I am just asking you if it sounds familiar that you maybe have a small number of companies that do business with GFG Alliance that you also audit.

Milan Patel: Yes, that is possible.

Q315 **Chair:** That is possible. I am sure everything is possible. Do you know the answer to any of the questions or are you just telling me about the worlds of possibility?

Milan Patel: Yes, sir. It is right that we have certain companies that would trade with GFG Alliance.

Q316 **Chair:** Okay, so now you are confirming that that is the case.

Milan Patel: Yes.

Chair: It would be helpful if you did that the first time I asked the question as opposed to the third time.

Milan Patel: I am sorry.

Q317 **Chair:** In terms of the companies that I have just mentioned, if we look at the operating revenue between 2018 and 2020 of those 59 GFG Alliance companies, there is a combined revenue of about $3 billion. Does that sound familiar to you?

Milan Patel: It does not sound familiar, because I personally have not done that calculation.

Q318 **Chair:** I can tell you that it is accurate, because it is their reported revenue from the accounts that have been assessed as being $3 billion of revenue between 2018 and 2020 for the 59 companies. Presumably, as the audit firm, you would be aware of their revenue and turnover.

Milan Patel: As I said, we do not audit the group; we audit individual companies.

Q319 **Chair:** These are the individual companies, Mr Patel. This is not the group. These are 59 individual entities, plus 11 of friends of Mr Gupta, that have a combined turnover of $3 billion.

Milan Patel: It would not serve any purpose for me to be able to add all of the group of companies that we act for—

Q320 **Chair:** What I am trying to get to is the capacity that King and King has to do proper audits for that number of companies with such significant turnover.

Milan Patel: We have the resources.

Chair: Okay, thank you for that.

Q321 **Paul Howell:** Just developing that slightly further, Mr Patel, and looking at it from King and King's point of view, industry standards say that auditors should not be generating more than 15% of their revenue from a single client. Again, it comes down to whether you are talking about individual businesses, but, if you look at the number of GFG companies that you are auditing and aggregate them, do they take up more than 15% of your revenue?

Milan Patel: We have been through our standards and ethical standards, and we believe that we do not exceed the thresholds.

Q322 **Paul Howell:** So you believe that, even combining the connected or related parts of GFG that you audit, it is not more than 15% of your revenues.

Milan Patel: We go through those ethical standards. We are appointed as auditors for each individual company that we audit, or a client.

Q323 **Paul Howell:** You talk very much about the fact that you audit individual companies and that you do not audit the GFG group. Do you find it unusual for an entity of this size not to be a group that is being audited, and for it to be so many fragmented parts? Obviously you and other auditors are doing different pieces of it, and normally in an audit you want to understand the pieces of the jigsaw, so to speak. Do you think that it is an unusual structure to be operating in this way?

Milan Patel: I cannot talk about GFG, but it is not unusual in many cases where we are group auditors and not the subsidiary auditors, or vice versa. It is quite common.

Q324 **Paul Howell:** Do you not consider that the way that things are there creates an opaqueness in terms of information for the audit teams to actually be able to assess things?

Milan Patel: Sometimes it is the expertise that you may have, because groups have different businesses and some auditors may have a better understanding of different kinds of businesses within a group. We have such groups that we act for either as group auditor or sometimes just specifically for a subsidiary and not the others, because our expertise may not go to all of the businesses a group may do.

Q325 **Paul Howell:** I spent 40 years in the manufacturing industry as a finance director and I do not think I have come across groups in that sort of structure that has been as vague as this, but maybe that is my relevant experience. Moving on slightly, looking at the audit of the GFG companies, you must have made an assessment of whether there were any irregularities or disproportionate risks because of the way that they used supply chain financing. I know supply chain financing is a very normal thing for many businesses—I used it myself—but the interrelated relationships put another of complexity into that. Did you find anything unusual or anything that gave you concern, in particular the reliance that ended up on Greensill Capital?

Milan Patel: I cannot specifically speak for Liberty, but supply chain finance is generally quite readily used by most businesses that are in either high-volume trading or manufacturing businesses.

Q326 **Paul Howell:** I am aware of that. Obviously in an audit you are going to look at the supply chain financing that is going on and check as to whether it feels right for the business, whether it is robust, whether it has any risks inherent in it because of the way it has been applied. I am asking whether from the audit perspective it gave you concerns, which you might have then found as being reasonable, but did it give you concerns in the audit process itself?

Milan Patel: Generally speaking, from an audit process where we come, the risk is not from a client's perspective. They are borrowing the money from a bank. It is for the bank that might have the risk of the security, not the client, because it is drawing down on the facility. We do not see any major risk when we are auditing supply chain finance from our clients' points of view.

Q327 **Richard Fuller:** Mr Patel, on that letter you mentioned you got from GFG's lawyers, what was the scope of that in terms of saying you cannot talk about things with this Committee?

Milan Patel: I did not hear you clearly, sir.

Q328 **Richard Fuller:** What was the scope in the legal letter you got, restricting what you could say to this Committee?

Milan Patel: That we should not divulge any information confidential to Liberty Steel Group during this evidence session.

Q329 **Richard Fuller:** Quite right too, but there are plenty of questions on GFG group you can answer that would not be of that ilk. For example, can you tell us when you won the business from the GFG group companies?

Milan Patel: We first started acting for them towards the end of 2018.

Q330 **Richard Fuller:** You first started working for any GFG company in 2018.

Milan Patel: When I say GFG, I mean Liberty Steel.

Q331 **Richard Fuller:** What I am asking, as you are well aware, Mr Patel, is when your relationship with companies associated with Mr Sanjeev Gupta, otherwise known as the GFG Alliance, began.

Milan Patel: Maybe I can go back. I met Mr Gupta in around 2012. Mr Gupta was not in the steel business until 2015, I think, so I am trying to draw a line there. We got appointed to the Liberty Steel companies towards the end of 2018.

Q332 **Richard Fuller:** I understand where you are trying to draw the line, but I would like to draw the line where I wish to draw the line, if I may. When was your first audit for any company of which Mr Gupta was a director or a beneficial owner?

Milan Patel: I would say around 2015.

Q333 **Richard Fuller:** Did you win that based on a competitive tender?

Milan Patel: I would not say competitive tender. It was a personal company of his.

Q334 **Richard Fuller:** What about the many other businesses in what we and most other people are terming the GFG Alliance? How many of those have been subject to competitive tender?

Milan Patel: That is confidential.

Q335 **Richard Fuller:** Are you aware of being part of a competitive tender as a firm for any GFG Alliance business?

Milan Patel: That is for GFG to know. We are normally asked to bid and then told by clients whether we have been successful.

Q336 **Richard Fuller:** Have you ever made a bid and not been successful?

Milan Patel: Generally, yes, many times.

Q337 **Richard Fuller:** With the GFG businesses?

Milan Patel: That would be confidential.

Q338 **Richard Fuller:** So your first answer does not necessarily refer to the second answer. For example, you could be saying, "We have made a bid for other businesses nothing to do with GFG and have lost those, but actually have won every single bid with the GFG Alliance companies". But you are not prepared to answer that question. Is that correct?

Milan Patel: I do not have that knowledge with me at the moment. I can look at it and come back to you.

Q339 **Richard Fuller:** Perhaps you could, and perhaps check with GFG Alliance lawyers whether you can answer that question. How often do you talk with Mr Gupta?

Milan Patel: The real answer is as and when we need to or when it concerns any auditing matters.

Q340 **Richard Fuller:** Roughly how many times a year would that be?

Milan Patel: It would probably be three to four times a year.

Q341 **Richard Fuller:** Would that be the same for your colleagues who are directly on the accounts for each of the businesses, or is all the communication with you, because you are the engagement manager?

Milan Patel: We have colleagues having some communication, but probably even less than that.

Q342 **Richard Fuller:** As you are aware, there has been a financing relationship between Greensill Capital and businesses within the GFG group. Have you or any of your colleagues in the business had any communication with the company Greensill Capital at any stage?

Milan Patel: Not as far as I am aware.

Q343 **Richard Fuller:** Is that a no?

Milan Patel: Yes.

Q344 **Richard Fuller:** Currently I think there are 17 accounts of GFG businesses that King and King audits that are overdue at Companies House. They have not been filed on time. Why is that the case?

Milan Patel: We are working on the audits.

Q345 **Richard Fuller:** But they are overdue.

Milan Patel: Yes. In certain cases, we may have information that is required, so, until we are satisfied and we have all the information required, audits do not get signed off.

Q346 **Richard Fuller:** That might give the impression that your firm is somewhat overstretched. Is that a fair summary to make?

Milan Patel: Not at all.

Q347 **Richard Fuller:** Twenty-four group companies of GFG have changed their accounting period two or more times since 2019. Why?

Milan Patel: I have no knowledge of that. That is for Liberty to know.

Q348 **Richard Fuller:** My experience is that, if a company wishes to change its year-end, it is usually a conversation it would have with its auditors. What conversations were had with your firm about the changing of accounting period two or more times within the last couple of years by 24 GFG companies?

Milan Patel: You would have the conversation with the auditors, but they do not have to give you a reason why they are changing it. It is just to inform the auditors so that the timing of the audit process would change.

Q349 **Richard Fuller:** Did it not spark a little question mark in the back of your head about why this was happening so frequently?

Milan Patel: It is not frequent, if you look at it, because they were trying to look at a new date to bring all the group companies within a particular date. That was all there was to that.

Q350 **Richard Fuller:** Okay. Have the fees that you charge to GFG changed over time?

Milan Patel: Yes, on the basis that if we deal with more companies for any client the fees would go up, or if there was any particular difference or additional work required in a particular year the fees may change.

Q351 **Richard Fuller:** There is nothing unusual about your fee structure for GFG companies.

Milan Patel: No.

Q352 **Richard Fuller:** What is your routine sampling methodology for revenue recognition when you do an audit?

Milan Patel: When you say routine—

Q353 **Richard Fuller:** Do you choose invoices of a certain size? Do you do a certain number of invoices over a year? Do you pick clients? What is the methodology that you adopt?

Milan Patel: It would vary depending on the client and the environment they are operating under. There would be various sampling techniques used, plus additional key items depending on the industry and the focus of where we consider the risk would be.

Q354 **Richard Fuller:** It would be helpful to this Committee, if you are able—and obviously you may need to discuss with your client—to send the Committee what the principles of the audit sampling that you undertook at GFG companies was. Would you be prepared to ask GFG group if it would allow that to be provided to the Committee?

Milan Patel: I will do that.

Q355 **Richard Fuller:** Are you able to say whether your firm was aware of any circular financing used in GFG companies?

Milan Patel: That is confidential so I am not able to answer that.

Q356 **Richard Fuller:** There have been reports in the paper of companies being cited as having invoices from GFG companies and saying they have never heard of the company and never had any dealings with it—what some might call fake invoices. Are you aware of any falsified invoices in the accounts of any of the GFG Companies?

Milan Patel: It is confidential, but if we come across any fraud or things like that we would have to take the appropriate steps.

Q357 **Richard Fuller:** Yes, quite right. You are absolutely 100% certain that no fraud ever took place in any of the audited firms that you were in charge of.

Milan Patel: You can never say 100% as an auditor.

Q358 **Richard Fuller:** No, but you are 100% sure you never saw any evidence of fraud. I appreciate it may occur, but you are just telling the Committee that in all your years of experience with the GFG group you never saw any evidence of any fraudulent invoicing.

Milan Patel: Yes, I can confirm that.

Q359 **Chair:** Mr Patel, what is your understanding of future receivables?

Milan Patel: To be honest, until I read it in the newspaper, I had no idea what future receivables was.

Q360 **Chair:** In the previous panel—hopefully you heard—the CEO of Wyelands Bank said they had to do a review of all the GFG entities that are customers of the bank because they had a deficient assessment of their connectedness. Have you had to do any similar analysis of connected entities within the GFG Alliance on the basis of your audit decisions?

Milan Patel: I cannot talk about GFG, but generally at the beginning of every audit we assess such matters in terms of related and connected companies, and what steps we need to take, or further steps, to identify any further risks.

Q361 **Chair:** You have not had to make any different decisions in recent months in the same way that Wyelands Bank has.

Milan Patel: No.

Q362 **Chair:** You said that you have 40 staff. Can you help us understand what type of roles you have in those 40 staff? Presumably you have some secretaries, some accountants, maybe others.

Milan Patel: We have a secretarial staff of about six. The rest are accountants. Of the 20-odd others, without the partners, we have three to four juniors, and the rest are all qualified accountants.

Q363 **Chair:** What is the level of supervision and sign-off for those juniors? Does it get signed off twice up the chain, just once or not at all?

Milan Patel: Juniors are generally not involved in any audits. They are normally accounting-based, so normally one sign-off, but when we look at the managers and people like that generally our managers are all Big Four trained, so they are very experienced managers.

Q364 **Chair:** How many managers do you have?

Milan Patel: We had three at one point. We have two now.

Q365 **Chair:** So 10 of your staff do not do audits, because six are secretaries and four are juniors. Of the remaining 30, two are managers and 28 are direct reports into those managers. Is that right?

Milan Patel: Sorry, I lost your numbering there.

Q366 **Chair:** You said you have 40 staff. Six are secretaries and three to four are juniors who do not do audits, so 10 of those staff do not do audits. Of the remaining 30, two of them are managers and the rest are presumably below manager level.

Milan Patel: That is right.

Q367 **Chair:** Some of the concerns that have been raised in the media have been about Greensill Capital making lending decisions based on audits that your firm submitted, largely based on asset valuation. Do you have anything to comment on those reports?

Milan Patel: I cannot be specific. We are auditors, not valuers.

Q368 **Chair:** How do you check the valuation of assets?

Milan Patel: Generally we ask most of our clients to get professional valuations.

Q369 **Chair:** You read those professional valuations, do you?

Milan Patel: Yes, we would have to.

Q370 **Chair:** Do you know who GFG Alliance uses as its valuers?

Milan Patel: It is confidential, but there are a lot of valuers who are possibly being used.

Q371 **Chair:** That is fine. You said that you were introduced to Mr Gupta in 2012. Who introduced you?

Milan Patel: It was another client of mine.

Q372 **Chair:** Are you able to say which?

Milan Patel: I am not at liberty to say that, but we have a few clients in the metal trading industry.

Q373 **Chair:** So it was somebody who knew Mr Gupta and suggested you might be a good auditor for his business.

Milan Patel: I suppose you are right from that point of view. I was the auditor to that particular client and he introduced me to Mr Gupta.

Q374 **Chair:** You were introduced on the basis of a particular specialism you have in this sector; is that right?

Milan Patel: No, more as an auditor.

Q375 **Chair:** You were just a general auditor; you had a nice relationship with someone; and Mr Gupta, with his increasingly complicated industrials business, thought he would come to you for audit.

Milan Patel: No, Mr Gupta was a metal trader when I met him.

Q376 **Chair:** That is quite a complicated business. I am just interested that, with no disrespect to King and King, he came to essentially a high street auditor instead of an auditor that has a specialism in commodities and trading.

Milan Patel: We have many metal traders that we act for.

Q377 **Chair:** Oh, you do. How long have you been providing audits to the metal trading business?

Milan Patel: I personally have since 1990, so 30 years.

Q378 **Chair:** Do you have any relationship with Mr Gupta's father?

Milan Patel: Yes, I have met him.

Q379 **Chair:** When did you meet Mr Gupta senior?

Milan Patel: It was around a similar time, probably a few months later.

Q380 **Chair:** Sorry, a similar time to when?

Milan Patel: Towards the end of 2012.

Q381 **Chair:** Right, so you met Sanjeev Gupta first and then his father afterwards.

Milan Patel: That is right.

Q382 **Chair:** When did you receive the legal letter saying that you were not allowed to speak to us about GFG or Liberty?

Milan Patel: We were informed on 25 June.

Q383 **Chair:** So it was after our last session with Liberty Steel.

Milan Patel: I do not know about that, but on 25 June we were told that we did not have consent.

Q384 **Richard Fuller:** On related businesses to the GFG group, King and King audits businesses associated with Mr Occhi, Berkeley Commodities, Mr Vyas and Mr Trehan at Aartee Group. You audit businesses in each of those groups. Each of those groups has relationships with Liberty. How do you maintain separation on audit responsibilities between those businesses?

Milan Patel: It is confidential, but generally we have different audit teams who work on different clients. As an example, we have a client who has a group with 35 companies, and we have quite a few separate teams who work on a few companies within that group.

Q385 **Richard Fuller:** That is a slightly different point. That is where you have a lot of businesses to look at and they are all part of the same group. This is about notionally independent businesses that have trading relationships, some of which have been drawn into question. I am wondering whether your firm—your compact firm—is able to maintain or wishes to maintain any separation in auditing those to avoid any conflict of interest.

Milan Patel: We are able to maintain that with the number of staff we have and the volume that we are covering in terms of audits. Sometimes the timing is completely different; they are done in different periods, so quite a lot of separation happens naturally.

Q386 **Richard Fuller:** Are you the engagement manager for King and King with Mr Trehan, Mr Occhi and Mr Vyas?

Milan Patel: I am the engagement partner for the companies that you mention, but you are mentioning the names of the individuals.

Richard Fuller: Thanks for the clarification. That is the answer I needed.

Chair: Mr Patel, that is the end of our questions, so thank you for taking the time to speak to use this morning. There were a couple of points there where you agreed to follow up with us, so we will deal with that at official level through correspondence.

Examination of witness

Witness: Patrick Magee.

Chair: We are now coming to the final witness in this morning's session. I am delighted to welcome Patrick Magee, who is the chief commercial officer at the British Business Bank, which sits within BEIS. Good morning.

Patrick Magee: Good morning. Thank you for having me.

Q387 **Chair:** My first question is about the number of entities in the GFG Alliance that the British Business Bank accredited lender, for this purpose Greensill Capital, lent taxpayer-backed money to. It has been reported that £400 million of taxpayer-backed money has been lent to eight entities in the GFG Alliance. Can you confirm that?

Patrick Magee: Let me just explain where we are in the process of looking at the Greensill accreditation and lending done under it. As you realise, we worked very hard during the pandemic to stand up three debt schemes. We accredited Greensill in June last year. It is a matter of public record that we have had an ongoing investigation in respect of that lending since early October last year. As you can imagine, with Greensill being in administration, that is a court-driven process. We do not want to confirm the exact details of the lending in that because we do not want to compromise the taxpayer's position in respect of that. I cannot go into the details of the lending, but as you say there has been a lot of press speculation about this.

The other thing to say is that we have been working very closely with the NAO, which will be able to provide a pretty fulsome report. It is due out pretty soon in July and will have more detail on that. We really are quite restricted in what we can say on the details of the lending at this point in time. I am sorry not to be of more help on that one.

Q388 **Chair:** Are you saying that the NAO report will list the companies that have received Government-backed lending in the GFG Alliance?

Patrick Magee: I think you may find that there will be some helpful disclosures in there, indeed.

Q389 **Chair:** Why is the NAO able to do that and you are not able to tell this Committee?

Patrick Magee: I am not an expert in parliamentary processes, but I think the NAO can disclose things that are deemed in the public interest. We have a specific duty of confidentiality with respect to Greensill. Again, we do not want to do anything that will compromise the Government's position. The NAO might have a bit more flexibility than I have this morning, if I can answer in that way, while trying to be as helpful as I can.

Q390 **Chair:** Greensill Capital said in the press that it had received approval from the British Business Bank that it was okay to lend multiple CLBILs through its approved lending to different entities if they were not in a group structure, which is how GFG Alliance is structured. Can you confirm whether the British Business Bank gave Greensill Capital that approval about related companies?

Patrick Magee: I am not aware of any specific discussion with Greensill on a named basis where it went through and asked whether it could split it up into different entities.

Q391 **Chair:** No, but my understanding is that Greensill Capital's lawyers asked the British Business Bank, "If, hypothetically, there were a number of related companies that were not within a group structure, are we allowed to lend money to each of them individually?" According to Mr Greensill the British Business Bank said yes.

Patrick Magee: It is very easy to take a hypothetical, no-names discussion and try to apply it to a very specific situation. We did not have any prenotification of, nor did we give approval for, multiple loans to Greensill companies.

Q392 **Chair:** I understand that, but it is perhaps obvious why Mr Greensill asked the question in the way he did. What I am trying to understand is this. In conversation with Mr Greensill, who posed that hypothetical question about being able to lend multiple CLBILs to related companies that are not in a group structure, did somebody from the British Business Bank say that was okay in principle, even though there was not a formal request in relation to GFG Alliance?

Patrick Magee: Again, we are in quite difficult territory here because there will be court proceedings around the administration and I do not want to get into the rights and wrongs. There was no specific request on behalf of Greensill in respect of that. We worked very hard with BEIS and Treasury to put in the right controls and systems into the CLBILs scheme, and one of those was that there would be a £50 million limit and only certain accredited lenders would be allowed to lend more than £50 million in larger scheme facilities. We had significant controls in the scheme.

Q393 **Chair:** So you are neither confirming nor denying that a conversation took place between the BBB and Mr Greensill on the related companies question.

Patrick Magee: There was no discussion with Mr Greensill. There may have been hypothetical discussions with lawyers on an unnamed basis.

Q394 **Chair:** Was that you who had that discussion or was it somebody else?

Patrick Magee: No, it was not me.

Q395 **Chair:** It was somebody else in the British Business Bank.

Patrick Magee: Correct.

Q396 **Chair:** In a letter to the then Shadow Chancellor Anneliese Dodds, the British Business Bank said that Greensill Capital had gone through the normal accreditation procedure in June 2020. What were the specific criteria that the bank used to accredit Greensill Capital?

Patrick Magee: I am very happy to take you through the accreditation process. To give you some context—again, you may see some of this in the NAO report—the accreditation process is something that we have used for more than 10 years. We have evolved it; we have used our enterprise finance guarantee and then it evolved into different Covid programmes, BBLS, CBILS, etc.

It is a very structured process. We start by publishing a request for proposals; then a lender will submit an expression of interest. That expression of interest will be evaluated by the product team; then if he gets to the next stage the lender will put in a formal proposal setting it out against those criteria. That will be critically assessed by the product team and the accreditation team. It will come to a senior investment committee within the British Business Bank, and that will be decided in principle whether to allocate. There will then be conditions subsequent, including legal documentation, before formal allocation is made.

If you would like me to go through the criteria, I am very happy to do that. Those are split down into various criteria. The criteria revolve around the track record of lending to businesses of that scale, the operations and track record, the systems and processes, and whether the business has appropriate risk management compliance frameworks. Those are some of the criteria that are in there, and we critically assessed the Greensill application against those criteria.

Q397 **Chair:** You have just talked about the track record and lenders' ability to assess and manage risk. It had been pretty widely reported in the

Financial Times and other places around this time that there were concerns at Greensill Capital. Were those raised?

Patrick Magee: We were aware of the press reports that had been raised. We did raise some of those specifically with Greensill. There is one on 4 May, which was just when the accreditation paper was going in, about losses that had been suffered. We did have specific discussions. We got assurances around some of those losses.

In terms of the Greensill application, it presented information that they had raised of tens of billions in finance for companies around the world; they had a significant track record of profitability and a very significant net asset base; they had demonstrated the ability to support businesses in the UK and across the world. Those are some of the facts that were presented to us, which we would have assessed against the criteria in determining, at the time, that it was appropriate to accredit Greensill. This was a firm that had raised a couple of billion dollars from leading international investors and had run significant debt programmes for leading debt investors globally, so it was a very significant entity based on the facts presented to us.

Q398 **Chair:** Which of course has now failed entirely, because, when Credit Suisse removed insurance cover for its exposure, it was not able to do all of the things it said it was able to. It has been reported that Greensill Capital was not authorised by the Bank of England or the Financial Conduct Authority, which means that there were no capital adequacy or stress tests on its ability to meet its liabilities. Was that a consideration?

Patrick Magee: Greensill Capital is an annexe 1 firm regulated by the FCA, but that is in respect of AML, KYC and antiterrorism financing. It is not PRA-regulated. It has a BaFin-regulated bank, Greensill Bank, in Germany. They did have the benefit of the guarantee assigned to them, so there was regulatory backing in the German banking structure.

Q399 **Chair:** The bank has said that it is not going to be publishing any documentation that relates to the accreditation of Greensill Capital. Given the level of public interest in this, and of course the ongoing investigations, will the bank be disclosing that information?

Patrick Magee: As I say, we are in a court-driven administration process. BBB has an obligation to protect the position of the taxpayer, which is a duty we take quite seriously. We want to take the appropriate steps to make sure the position of the taxpayer is presented. We have been extremely open with the NAO. The report can provide some very useful information to the Committee when it emerges in the not-too-distant future.

Q400 **Chair:** When the administration of Greensill Capital is complete, you will be able to release the documents then, presumably.

Patrick Magee: I do not know what the proceedings are after administration, but we will do anything we can appropriately do. As public servants, we are here to help Parliament and the Committee, but we also have a competing duty to balance out our position in any administration or future discussions about the guarantees and any potential claims on them.

Q401 **Chair:** Having gone through this process, do you think the bank will need to change the way in which it approves accredited lenders for future schemes?

Patrick Magee: The bank is always here to make improvements and take on board lessons learned. As I said, we have evolved the accreditation process over many years. We did a very significant review of it in 2016 and 2017. I am sure there will have been lessons learned, and we will look to incorporate those over time. This is a process that we have used for many years and, indeed, we did accredit many lenders during the pandemic period. We started out with about 40 lenders, and we stepped that up to have 110 in CBILS, many of them non-bank lenders, with about 27 under CLBILS. It is a process we have used repeatedly, but if there are lessons to be learned we will certainly take them on board. We are always seeking to improve.

Q402 **Chair:** Presumably one of those lessons will be that you are not allowed to lend multiple amounts to related companies. Is that going to be a change or an explicit condition?

Patrick Magee: There is an explicit grouping scheme eligibility requirement there, so we do have that in there. Again, we can review that if appropriate over time, but we did have a control and a system requirement in there.

Q403 **Chair:** So that is already explicitly prohibited; it is just that in this case, because it was not a normal group structure, perhaps decisions were taken differently.

Patrick Magee: Again, I am not going to comment. The investigation is ongoing. The investigation covers the compliance with the group criteria as well as other criteria. It is including but not limited to the grouping requirements. We are investigating all those aspects in terms of whether the scheme rules were complied with.

Q404 **Rushanara Ali:** Mr Magee, to continue the theme of accreditation, given that you are currently investigating the way that the coronavirus large business interruption loans financing was used, can I put it to you that the criteria accrediting lenders were not sufficiently rigorous? If it had been, your bank would have done what HM Treasury did, which is to refuse to provide hundreds of millions of pounds in loan guarantees.

Patrick Magee: I am not sure I would necessarily agree with you on that. What you are referring to is that the Bank of England did not provide the CCF facilities. That was a different programme, which was used for different purposes with different eligibility criteria. It was designed to be used for investment grade corporates, not for financial institutions. It is fair to say that the Bank of England turned that application down because it did not meet those criteria. We looked at the criteria of CLBILS, which we had worked in very close collaboration with BEIS and Treasury to create. That was a delegated scheme. It is very important to point out that we accredit the lenders; we do not look at the underlying borrowers. That is delegated to those lenders, and in the case of CLBILS there is what we call skin in the game—a co-investment alongside—so I am not sure I would necessarily agree with you. The Bank of England's decision was based on a different set of scheme criteria and a different purpose.

Q405 **Rushanara Ali:** Right, so what you did was okay despite what has happened. With the benefit of hindsight, the letter from the chair of the British Business Bank to the Chair of this Committee pointed to the fact that the investment committee oversees this stuff and the board does not have oversight of the kind of lending decisions that led to the loan guarantees of up to £400 million.

Patrick Magee: There are a couple of elements in that. The board does delegate to the investment committee, so the board approves us launching the new programmes. Again, as you can imagine, in a bank managing the exposures that we do, it is appropriate for the board to delegate certain investment decisions down. As I was saying earlier, we accredited more than 100 lenders into the scheme, so the board had delegated to the investment committee.

Q406 **Rushanara Ali:** Just on that, given the response from Lord Smith, do you think that there is a case for the board to have greater oversight so that this sort of thing does not happen in the future? Banks would do, in terms of senior management regimes and so on. Should there have been more rigour in terms of what the board does? At the moment, we have an unhappy situation of Greensill Capital being able to access CLBILS loans in the way that it did.

Patrick Magee: There are various aspects to that. First, in terms of the board and the rigour, I would say that our board is extremely rigorous. I am a member of our board and sit as an executive member there. The board will approve the launch of new products and will delegate appropriately. Again, we can look at our governance structures over time, but it is very common even for a regulated financial institution, which we are not, to have the board having oversight of programmes and then delegating to senior investment committees. Hopefully that gives some idea.

Q407 **Rushanara Ali:** I appreciate what you are saying about rigour, but in this case the rigour did not stop the fact that the £50 million limit was reportedly breached eight times. You are coming here to this Committee to say you have a rigorous process, but it seems like you are not acknowledging that there is a major failure here and that lessons need to be learned.

Patrick Magee: I did say that there will be lessons to be learned, and the board is looking.

Q408 **Rushanara Ali:** Is one of the lessons that the board needs to have much greater oversight and rigour in the way that it oversees what sub-committees do, for instance? That is a governance point. It is not rocket science to look at a major failure, which this is, in order to make sure it does not happen again.

Patrick Magee: Absolutely, we can explore that and look at the governance regimes. I can say that the board is looking very closely at this. What we are looking at here is an ongoing investigation. At the outcome of the investigation, one of the outcomes could be that the guarantee is withdrawn. I cannot comment today on how that decision will go, because that could prejudice it. Our board is looking very carefully at this, and of course we will look at this when everything has passed and see if there is more we can do on the governance front.

Q409 **Rushanara Ali:** Were any members of staff or board members lobbied by any outside parties on behalf of Greensill Capital?

Patrick Magee: There was one letter from a local MP, John Healey. The chair has responded that there was no contact from David Cameron, et cetera, in terms of lobbying. We independently assessed the Greensill application against the criteria that we had been set. There were of course questions from BEIS, which has a steel team who are interested in outcomes in the steel sector, but in terms of direct political lobbying the chair has written to you on that.

Q410 **Rushanara Ali:** I apologise if there is any repetition, but can you just run through with me what the bank knew about the relationship between Greensill Capital and GFG Alliance at the time that you accredited Greensill Capital as a lender? Did the bank have any concerns, for instance, about Greensill Capital while it was doing that accrediting?

Patrick Magee: Again, it is important to stress that we were accrediting and analysing Greensill. As I said, this is a delegated scheme, so the underlying investment decisions are for Greensill to take, in compliance with the scheme rules, which provide significant protections to Government. We were aware that GFG was a significant and established client of Greensill, but, again, we were not undertaking analysis of GFG. We were looking at the Greensill accreditation request against the proposals there. We were aware that it was an established client, but the system and controls within the scheme meant that there was a maximum of £50 million to any borrower or borrower group, and we had to be pre-notified of any lending that was going to go above £50 million to any borrower or borrower group.

Q411 **Rushanara Ali:** The Treasury Committee has been told that BEIS was passed information by HM Treasury that related to Wyelands Bank. What, if any, of that information made it to the British Business Bank? What did you do with that information, if you got any?

Patrick Magee: There was no information passed to the British Business Bank about Wyelands Bank, but, as I was saying earlier, we were accrediting Greensill, not GFG, and certainly not Wyelands Bank.

Q412 **Rushanara Ali:** There is just one more thing, which is related to the Bank of England. It was also receiving information from a foreign regulator about the control issues at Greensill. Charles Roxburgh told the Treasury Committee that the Treasury did not become aware of these until October 2020. When did the British Business Bank become aware of them?

Patrick Magee: I do not have any exact date but I can go and check that. It was certainly in the latter part of 2020. That accords with what you are saying there. I do not know exactly how quickly Treasury informed us, but we did know about that regulatory investigation in the latter part of 2020.

Q413 **Rushanara Ali:** As you know, Mr Cameron was lobbying a number of individuals in the Bank of England, HMT and others, and from my understanding also a Business Minister. Did anyone get in touch from any of those Departments, whether Ministers or officials, with the British Business Bank about Greensill Capital? Was the buck passed on to you guys to help them, given the Treasury turned down requests?

Patrick Magee: The NAO report will be quite helpful on this. We have discussed interactions between us and BEIS in respect of potentially the Greensill accreditation. It is very important to say from a RACI perspective—responsible, accountable, consulted and informed—that we were consulted heavily by BEIS and Treasury in the design of the scheme, but in terms of the accreditation we had to make those decisions independently, so we were not asking for permission to accredit individual lenders. BEIS inquired on a number of occasions about the progress of the Greensill application. We informed it that we were making that decision independently.

What I would say is that we did not give Greensill everything that it asked for. We did not give it the ability to do larger scheme facilities. We did not give permission to do supply chain finance. Again, in those external letters and other requests, we had been asked to do that in the accreditation. We reached an independent decision. The bank has been reviewing that question of influence, and we have concluded that we were not influenced by that. We reached our own balanced commercial decision versus the eligibility criteria in the scheme.

Q414 **Rushanara Ali:** Would you be able to share with us who at BEIS inquired and how frequently those inquiries were made about progress with the Greensill application?

Patrick Magee: I think you will find the NAO report extremely helpful in that.

Q415 **Rushanara Ali:** Why can you not just tell us? Other committees have had evidence where questions were answered. Why can you not just tell us what BEIS was asking you? It would be very helpful for this Committee's inquiry and the Treasury Committee's inquiry to shed light. The public expect to have answers. You are a publicly funded bank. I do not understand why you cannot answer that question.

Patrick Magee: I can give you a description of it. You will see more on it in the NAO report.

Q416 **Rushanara Ali:** My preference would be if you could tell us who in BEIS and how frequently from BEIS you were being asked for an update. Was it officials? Was it Ministers? If you cannot answer that question, you could check your records, write to this Committee and let us know, because that would help inform the reports that this Committee and the Treasury Committee make.

Patrick Magee: Let me answer that and give you the high-level details in follow-up. I believe we had eight email inquiries about the Greensill application. We were providing updates on the general accreditation process and the accreditation of quite a few lenders in the different schemes. I think we counted up eight requests for progress, and we were informing them against that progress. We had eight inquiries from officials within the BEIS steel team. Again, further detail will be in the NAO report, so hopefully that gives you a sense of that. I am very happy to provide more of that.

Q417 **Rushanara Ali:** Just as the Treasury provided answers to the Treasury Committee, and that was made public, would you be able to please provide the correspondence that was provided in terms of those inquiries and the dates in some sort of grid? That would be helpful. Other committees have received it, and I do not see why this Committee should not receive it.

Patrick Magee: I will take that away. I am sure we will be able to come back with a helpful response.

Q418 **Rushanara Ali:** It would be helpful for my committee's inquiry as well as this Committee's ahead of publication of those reports, so we have full line of sight on what happened and what the exchange was between BEIS and the British Business Bank.

Patrick Magee: Yes, we can provide the Committee with further details on that, but hopefully I have given you a sense of that. There was also one question from a BEIS Minister in passing, before the CLBILS scheme, but it was not an urge; it was a question about whether Greensill would be eligible to apply.

Q419 **Mark Pawsey:** I wonder if I might take you back to October 2020, when the bank decided to suspend the guarantee to Greensill Capital. Why was that decision taken?

Patrick Magee: Within very few days of data being put on our portal—as I say, it is a delegated scheme so therefore, if Greensill goes out and makes loans, it then has to put that on our portal—we looked at the lending data. We questioned that and went, "Okay, we'll have a look at that". We decided to launch an investigation, including whether it complied with the grouping rules but also the broader scheme eligibility. We looked at that data and we immediately raised some questions internally. In fact, we paused lending by the middle of October.

Q420 **Mark Pawsey:** You are telling us that the bank was concerned about what Greensill was doing with the funds that it had been allocated and who it was lending them to.

Patrick Magee: Yes, we looked at the data provided and said we felt that we needed to investigate that, and have been since early October.

Q421 **Mark Pawsey:** Would it be fair to say that that was because too large a proportion of the money allocated to Greensill had been allocated to GFG Alliance companies?

Patrick Magee: As I said earlier, there are controls in the scheme in terms of lending more than £50 million to a borrower or a borrower group, et cetera. Yes, we wanted to investigate what we had seen in the portal.

Q422 **Mark Pawsey:** Was it specifically that too large a proportion had gone to GFG Alliance companies?

Patrick Magee: I would rather leave it to say that we wanted to look at the overall compliance with the scheme rules, including the grouping.

Q423 **Mark Pawsey:** Following the decision that was taken in October 2020, what is the current legal status of the relationship between the British Business Bank and Greensill?

Patrick Magee: There has been an extensive investigation going on since early October. As you can imagine, these are significant amounts of capital, and these are important and significant schemes, so an extensive investigation has been ongoing. We formally wrote in early March to set out our concerns, inviting Greensill to respond to them, and at that stage we formally suspended Government's obligations under the scheme.

Q424 **Mark Pawsey:** I understand what you are saying about your concerns about the protection of taxpayers' funding, but is there perhaps some way in which Greensill Capital could say that the British Business Bank has acted unilaterally, and that it might in fact be in breach of contract and in breach of the commitments it made when Greensill was accredited?

Patrick Magee: There is room for different views, and an investigation and a dispute. That is why I am perhaps more guarded than you would like me to be in some of my responses, because I do not want to compromise. There is definitely legal risk in this situation, but our investigation is ongoing. Under the terms of the scheme rules, there are circumstances when we can withdraw the benefit of the guarantees. We have not made that decision. That decision could vary over time, so no final decision has been made.

Q425 **Mark Pawsey:** In the relationship with Greensill and other companies, does the contract include the opportunity for a legal challenge to the kind of decision that the British Business Bank made in October 2020?

Patrick Magee: There was no decision made in October, and no final decision has been made. We have ongoing investigations and, of course, in something with a significant contractual obligation around this type of money, there obviously could be room for quite significant legal challenge. That is why I am being careful in what I am saying with you today, in order not to compromise our position.

Q426 **Richard Fuller:** Mr Magee, in general principle terms, how does the bank look at this particular programme? What are the criteria for saying the businesses would be connected and therefore ineligible? How would you describe or define what would make the difference between being eligible and not eligible in terms of connectedness?

Patrick Magee: Are you talking about connections between the lender and the borrower, or are you talking about different borrowing entities under the scheme?

Q427 **Richard Fuller:** It is different borrowing entities then subsequently being seen as, "Actually, that is one, and therefore is not eligible".

Patrick Magee: As I said earlier, there is a group definition within the scheme. It is probably a little complex for me to recite now, but I am very happy to write to you with details of what the group definition is within the scheme. That might be the best way to deal with that one, if I may.

Q428 **Richard Fuller:** Yes, that would be helpful. Thank you. I do not know whether you have any direct experience of looking at examples, not necessarily the one we are talking about now. Without ascribing to any particular one, when you had discussions, what sort of issues were there? "You know what? Those are connected". What sort of things came up that made the decision to be on one side rather than the other?

Patrick Magee: There are complex definitions there. It talks about ownership, et cetera, and interconnected trading between them. I really do not want to go into the detail of that now, because I do not want to compromise.

Q429 **Richard Fuller:** I understand that, but in practical terms you were going through this programme for a long period of time. How often did you have those sorts of discussions to say, "No, they're connected"? Was it in every meeting? Did you have a section on the agenda to review it, or was it very rare?

Patrick Magee: Again, it is difficult to go into detail. These are delegated schemes, so I think we would have had questions coming in on specific cases, potentially into the product team, around that. It would not have been a unique situation.

Q430 **Richard Fuller:** That is beautifully vague. This is a specific part of your scheme. It is not lost in the midst of loads of things; it is a very important aspect. That is why you have such an important definition. I understand there would be delegated lenders at the front end, but there would have been some controls. You have controls to make sure your rules are followed. Can you get any more detailed than the rather vague response you gave? Was this a regular feature or was it very, very rare? How would you describe it?

Patrick Magee: We have supported 1.6 million businesses through our schemes. Due to nature of the delegated scheme, it would generally be the lender who would be looking at that. On frequent occasions they would ask questions of the team for clarity around that. There would have been frequent conversations, certainly within the lenders and potentially between other lenders. Grouping in definitions would have been common. It is an important part of the scheme, as you say. Perhaps that is less vague and more helpful.

Q431 **Richard Fuller:** It is. The impression I got from you was that you had the rules but you did fully expect the next tier down to be looking at group connectedness, and only in exceptional circumstances for it to come to the British Business Bank.

Patrick Magee: We provide detailed scheme guidance rules, so the lenders would look at that but they have the ability to come and ask questions about that.

Q432 **Richard Fuller:** Given that a lot of those issues were taking place at that level down, what threshold did your concerns about Greensill Capital need to reach in order for you to launch an investigation?

Patrick Magee: As I say, we looked at that data in early October and almost immediately started the investigation. Again, it was not limited to the group definition, but in terms of the broader scheme eligibility rules and criteria. A wide-ranging investigation was triggered once we were notified of that information in early October.

Q433 **Richard Fuller:** How many investigations of this ilk are you undertaking at the moment?

Patrick Magee: Obviously, as well as the upfront accreditation process, we have a significant audit assurance programme. We have audited every lender under the scheme, and in those audit assurance programmes we will be defining lots of management actions and things to remediate. We are in discussions with many, many lenders about various aspects of the scheme, but I would say the vast, vast majority of those are minor administrative matters and working through things.

Q434 **Richard Fuller:** Would I be correct in assuming from your answer that, at the moment, you have no other investigations of this type underway?

Patrick Magee: I am not going to comment on where we are with other lenders.

Q435 **Chair:** I am interested in this point about accredited lenders being able to ask the bank questions about the bank's guidance to ensure that they are complying with it and how much the bank verifies those questions. We have heard today that Greensill Capital asked the bank whether a disconnected group of entities ultimately owned by the same person could receive multiple loans under their accredited lending scheme. That is what has been reported. In other circumstances, when other accredited lenders ask the BBB for confirmation of the guidance, do they come to you with hypothetical questions or do they come to you with actual questions related to a particular client, with a level of information that you can therefore take a decision on in terms of the advice you give to them?

Patrick Magee: It is an interesting question. If someone wanted to have something to rely on, they would need to give very detailed and specific information. Again, there is a potentially significant dispute here in the future, so I really do not want to compromise the taxpayer's position.

Q436 **Chair:** From my perspective the BBB will say, "It is the accredited lenders' job to enforce our rules. That is part of our agreement with them. If they do not do that correctly, we reserve the right to withdraw the guarantees, recover funds and take legal action against them". Therefore, when the accredited lender is asking for confirmation about how guidance is applied, it is going to go to a certain level of detail to ensure that it has confirmation about applying the guidance in the right way. It is not just going to come to you with a hypothetical question. The point I am getting to is that, if an accredited lender was asking a hypothetical question, should that not have rung an alarm bell at the British Business Bank before it gave an answer?

Patrick Magee: Again, we are in very delicate territory, but, as I said earlier, we did not have any question from Greensill on this point.

Q437 **Chair:** My last question is one about the capacity and culture at the bank. You were asked to do a huge job. The scale-up of your functions was enormous because of the pandemic, compared to what you were asked to do previously. That is entirely understandable. In that context, in my head I have a vision of you and your colleagues working really, really hard to try to do the best here, and to help companies across the country at a time of real difficulty. Did you have sufficient capacity to do things in the way you might normally do them or was there a real stress around deadlines and getting applications through? Did you increase your capacity in any way? What was the culture of the office like at that time?

Patrick Magee: I am delighted that you have asked that, because like many parts of the economy in the public sector there were unusual demands. None of us had seen a pandemic coming, but I am very proud of the way the bank acted. We absolutely scaled our operations. We brought colleagues in from different parts of the bank to help with the accreditation process. We brought in expert corporate finance and other advisers to help us with the accreditation process.

I was saying earlier about the accreditation process we have used. It is very carefully structured, documented and assessed against criteria. We were able to use that very well-structured process, and use it at scale, to accredit more people than we had before. Again, we believe that was a robust process. We applied that process appropriately. We scaled up to do that. Colleagues at the bank responded extremely well to the challenge. We worked very long hours but I am not complaining about that. We are delighted to have had the role to do this for Government.

Our colleagues are very mission-driven. We have very high colleague engagement. People worked extremely hard. There was pressure, but in responding to the economic circumstances at the time we did what we should. We stood up, applied a robust accreditation process and did so independently.

Q438 **Chair:** So there was a certain level of automation to the accreditation process. Did I just hear that right?

Patrick Magee: I would not say automation. Every accreditation process was given individual attention, and went to either a managing director forum or investment committee. It was a very detailed process. Every application was critically assessed against the criteria.

Q439 **Chair:** You just said you brought in third party advisers to help you meet the demand. For the Greensill application, was that done internally by officials at the BBB or by an external advisor?

Patrick Magee: That was done internally by one of our most experienced teams.

Chair: In that case, I think that brings our session to an end. Thank you, Mr Magee, for being with us and taking the time to answer our questions today.