HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Liberty Steel and the future of the UK steel industry, HC 118

Tuesday 6 July 2021

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Watch the meeting

Members present: Darren Jones (Chair); Alan Brown; Richard Fuller; Ms Nusrat Ghani; Paul Howell; Charlotte Nichols; Mark Pawsey; Alexander Stafford.

Questions 440 - 512

Witnesses

I: Cynthia O’Murchu, Investigative Reporter, *Financial Times*; Professor S. Alex Yang, Associate Professor of Management Science and Operations, London Business School; Professor Javed Siddiqui, Professor of Accounting, Alliance Manchester Business School, University of Manchester.

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Examination of witnesses

Witnesses: Cynthia O'Murchu, Professor S. Alex Yang and Professor Javed Siddiqui.

Q440 **Chair:** Welcome to this morning's session of the Business, Energy and Industrial Strategy Committee for our latest hearing on the future of steel in the UK. For our session today, we have three witnesses: Javed Siddiqui, who is a professor of accounting at the University of Manchester; Cynthia O'Murchu, who is an investigative reporter at the *Financial Times*; and Alex Yang, who is an associate professor of management at the London Business School. Good morning to all three of you.

I will kick off with questions before bringing in colleagues. Alex, can I come to you first? One of the aspects of our inquiry has been looking at the role of supply chain finance, which has been with us for some time. I just wonder whether you could explain to the Committee how widely this form of financing is used in British industry and specifically in the steel sector.

Professor Yang: That is probably a $1 million question.

Chair: That is why I ask it.

Professor Yang: There is really no consensus on what "supply chain finance" really means. Let me try to clarify that a little first. In general, my understanding is that there is a narrower definition and a broader definition. If you look at the narrow definition, supply chain finance just refers to one specific type of financial product, which is called reverse factoring. If you talk to bankers and a lot of practitioners, that is their understanding. Under this type of arrangement, the supplier has the flexibility to receive cash based on an approved invoice before the actual invoice due date. When the invoice is due, the buyer will pay the financer the invoiced amount. This is also the definition used in BEIS's reporting requirements for business payment practices and performance.

As for how widely it is used, I have looked into the reporting that large UK business are required to do. On your database, over the last four years there are about 41,000 valid or complete entries or reports. About 7% of those businesses actually disclose that they offer supply chain finance programmes. Some of the large companies like Vodafone or Tesco do, yes.

Q441 **Chair:** So there are relatively low levels of use and there is quite a lot in the consumer part of the economy. Do you have any insight around the steel industry specifically? Do steel companies make regular use of supply chain finance? Would this be something that we would expect to see?

Professor Yang: Based on my knowledge, because the steel industry is a more commodity-heavy industry, the trade terms are quite standard and it probably has a lower-than-average adoption of supply chain finance.

Supply chain finance is not necessarily all consumer-facing industries. For example, the German automobile manufacturers are some of the pioneers that use these types of programmes, because they have very sophisticated or very complicated supply chains.

Q442 **Paul Howell:** I am going to start with Cynthia, please. In a letter to the *Financial Times*, Sanjeev Gupta stated that "many of Greensill's financing arrangements with its clients, including with some of the companies in the GFG Alliance, were 'prospective receivables' programmes". I am a finance director by trade and I have worked in a supply chain, so I think have a decent grasp of it, but I wonder whether you could just elaborate for the Committee how you would describe these "prospective receivables".

Cynthia O'Murchu: Yes, absolutely. "Prospective receivables" is quite a controversial term, in the sense that there are future receivables that actually exist. To a certain extent, they are used in business to finance transactions that have not quite yet occurred but that are with companies where, for example, you have a regular trading relationship. You know that maybe next month a pub will order 100 kegs of beer, and you know that they will do that every month from now on, so you can get funding ahead of time for the kegs that you will sell.

However, the problem we have with the GFG situation is that these appear to be transactions that have not just not yet occurred, but are also with counterparties, businesses or clients that do not even know that they have been chosen to be a client. In a way, going back to the pub example, let us say that you know that the pub orders 100 kegs of beer a month and so you have a certain extent of knowledge that you can expect this money to flow. However, if you then suddenly see an invoice that you are supposed to finance that shows it is 100 kegs of beer to a nursery, that is quite a different thing.

In terms of prospective receivables, the term has come up, as you rightly say, in the letter that Sanjeev Gupta wrote to the *Financial Times* after we wrote an article that outlined how Grant Thornton was unable to verify invoices, meaning that they were being told by clients of GFG that they had not done any business with them. He essentially referred to those as a synonym for future receivables. Crucially, in his testimony to the Treasury Select Committee, Greensill said that he did not recognise this term, and none of the documentation that Greensill provided used that term. It is not something that he said he recognised.

Q443 **Paul Howell:** Essentially, in terms of risk, you move from what I would call standard supply chain finance, where you are basically just selling the invoices for the goods you have actually sold and accelerating the payment of them, through into prospective sales from customers that you already know and through to where we have gone here, which is even beyond that: customers you do not even know, or customers who do not even know that there is a risk there. That must surely make the receivables position extraordinarily risky.

Cynthia O'Murchu: It is extremely risky. We have written extensively about the fact that, first, Grant Thornton was unable to verify the invoices. Normally, if you have a trading relationship with someone, you sell them something and then you give them an invoice; you expect that invoice to be paid. In the situation with Greensill, Greensill needed to verify those invoices and Grant Thornton has done it in its stead once Greensill went into administration. If it is told that the business has not bought anything from GFG, that is a huge problem.

If I may, I would like to outline what happened afterwards. We can get to it afterwards, when we talk about what we believe to be highly suspect invoices. I do not know whether you want to get to that now or later on, but that is all within the context of prospective receivables.

Q444 **Paul Howell:** We will pick that up later. I would like to focus on the risk position at this point in time. What I would like to touch on is whether you think this type of financing was instrumental in either the collapse of Greensill or even the financial difficulties that are now facing Liberty Steel. I will take an answer from yourself and then ask the other witnesses whether they want to build on your comments.

Cynthia O'Murchu: Absolutely, yes. GFG and Greensill were absolutely intertwined. As David Cameron has said, they had a symbiotic relationship. The exposure that Greensill had to GFG was astronomic; we are talking about $5 billion of exposure. Other financial entities such as Credit Suisse were heavily exposed.

If you have invoices that potentially do not even exist and transactions that potentially do not even exist, and you are basing your funding and lending decisions on that, you have a huge problem because those will never paid back.

Q445 **Paul Howell:** In particular, because they are with customers who are not even considering trading with you.

Cynthia O'Murchu: Yes, absolutely.

Q446 **Paul Howell:** Would either of the other witnesses like to expand on any of the points from Cynthia?

Professor Yang: If I may, yes. I agree with Cynthia. "Prospective receivables" is a term I probably heard for the first time in the lawsuit Bluestone filed against Greensill.

I also agree with Cynthia that this is a type of transaction that, by its nature, could be risky, but it depends on where they draw the line in terms of predicting what the prospective receivables will be. Based on the reporting, Greensill did not do a very good job at classifying or predicting what is highly predictable and what is not. That is really where the risk comes from.

Q447 **Paul Howell:** Is there a position as to the way it is presented in the accounts as to whether it is secured or unsecured debt as well?

Professor Yang: I would classify invoice discounting based on prospective receivables as unsecured.

Paul Howell: Me too.

Cynthia O'Murchu: There is also a question about how valid insurance for the funding activities is in that respect.

Q448 **Paul Howell:** Would you like to elaborate a little bit on that?

Cynthia O'Murchu: I do not know the ins and outs. I know there is a dispute as to whether or not the insurance is valid. For every financing transaction in supply chain finance that Greensill was entering into, the idea was, if the client did not pay up or if it was impossible to get the invoices paid by those who owed them, there would be an insurance, which is what the big problem was for Greensill. When the insurance was pulled, Greensill was unable to continue to operate.

Now, it is not entirely clear to me whether the insurance is valid. That will be subject to discussion and investigation. I believe that Greensill is of the opinion that the insurance is valid.

Q449 **Paul Howell:** It is quite a normal position for businesses to insure their debt in terms of the book, if you like, but it does seem to be a stretch of faith to say that you can insure invoices that have not been raised for customers you have never dealt with.

Cynthia O'Murchu: Yes, absolutely.

Paul Howell: That is the point that you are coming around to there. Thanks for that.

Q450 **Chair:** Javed Siddiqui, could I just follow up with you? There are just two follow-ups from me on future receivables. We have received a written submission this morning from Sanjeev Gupta. There are just two points that I want to raise to get your views on. If other witnesses want to come in, please feel free to do so. Mr Gupta has said that raising finance through a temporary sale of inventory not needed immediately with an agreement to buy it back later when needed is a perfectly acceptable way to do business. He has referred to it as a bilateral or tripartite repurchase agreement. Mr Siddiqui, do you have a view on that in the context of this discussion around future receivables?

Professor Siddiqui: In terms of future receivables, we have been talking about the risks involved. Despite what Mr Gupta said this morning, it still requires a lot of judgments: judgments by Greensill, judgments involving Liberty and also from the point of views of auditors.

These are transactions that you simply cannot verify. You do not know whether they are going to occur or not. Of course, that is going to raise a lot of concerns. If you had a proper governance system, it could have been restricted. Perhaps that did not happen in this case. In terms of risks, I would say the risks are very high. These may also be fictitious transactions; we do not know that.

In terms of actual practice, I do not think this is a common practice at all. It is quite a rare practice in terms of future receivables. I must have read it somewhere in the past, but it does not ring a bell at all. It is quite a rare thing to do.

Q451 **Chair:** You talked about the assessment of risk there. In the submission from Mr Gupta this morning, he has essentially said that in the prospective receivables programme—my understanding is that prospective receivables and future receivables are the same thing—that Greensill Capital made available to GFG Alliance, it was Greensill Capital that identified potential customers of GFG Alliance. At Greensill's discretion, it then entered into prospective receivables; it was taking the risk decision.

That sounds quite odd to me. Surely if Liberty Steel Newport was selling steel to somebody in the future, it would want to know who the customer was. It would not delegate that to its finance partner to identify a potential customer who then may not ultimately purchase the steel. Do you have any thoughts on the submission that it was Greensill Capital's decision as to how this future receivables programme worked?

Professor Siddiqui: Let us think about it clearly. Let us say I am getting into a transaction and am trying to sell something to a particular party, but without me knowing my financing company has sold it. It is difficult to believe that. First, in terms of future receivables, this is highly risky, but, in terms of not knowing where that is going to come from, it is not believable, at least to me. Maybe Greensill did that for them, but there must have been some kind of discussion between them, if that is happening.

Chair: On the future receivables, this is the nub of the issue. Lex Greensill said to the Treasury Committee that he just received the invoices from the GFG Alliance and processed them in the normal way. In a written submission to my Committee, GFG Alliance have said that all of this was outsourced to Greensill and they were making the decision. There is a very clear conflict of submission between those two parties.

Cynthia O'Murchu: One point that I just wanted to make about future receivables is that the scale of them has gone up incredibly. In 2018, Greensill issued about £470 million in future receivables; that went up to £15.4 billion by 2020. It is a huge increase. 11% of Greensill Capital's asset flow, which was about £143 billion, came from future receivables. That went up from 2% in 2018. We are talking about a humongous increase.

Professor Yang: You cannot share your screen so we can see Gupta's letter, can you?

Chair: We will publish it, but I am afraid that I cannot share the Zoom. I am sorry.

Professor Yang: I am just curious. It seems plausible that Greensill has identified those accounts, but it is still GFG's decision in terms of whether to borrow. Is it Greensill just pushing the loan on them? I would think that would be quite—I do not know what the word is to describe that—unimaginable.

Chair: Yes, it seems unusual, does it not? Richard, were you indicating that you wanted to come in there?

Q452 **Richard Fuller:** I was waiting with bated breath for what word Professor Yang was going to use. You said it was unimaginable. Just to be clear, Professor Yang, what you are saying is that it is unimaginable that a financial provider would create a structure for lending based upon future receivables, basically saying, "This customer who is not a current customer will buy stuff from me in the future". That is what you are saying is unimaginable.

Professor Yang: No, I can imagine that. That is possible. Greensill is a fintech start-up; it is looking for new businesses. It could be proposing this to an existing client, but it is unimaginable that the potential borrower would get into this deal without knowing it. They are the party who will be borrowing money from Greensill, so they have to sign off on that.

Q453 **Richard Fuller:** What you are saying is that, regardless of the evidence that Mr Greensill may provide and regardless of the evidence that Mr Gupta may provide, in your mind, they can point fingers at each other, but it is "unimaginable" that they both did not know.

Professor Yang: Yes. Both parties must know at some point. It is not clear to me what the sequence is, but both parties have to get involved at a certain point.

Q454 **Richard Fuller:** Would that be a conclusion, Professor Siddiqui and Ms O'Murchu, that you would agree with?

Professor Siddiqui: I would agree with that. It has to be.

Cynthia O'Murchu: Yes.

Q455 **Richard Fuller:** My final question on this part is for each of the witnesses. In this scenario, one company is lending money to another company based on the fact that it thinks it may sell something in the future to somebody with whom it has no existing customer relationship. In your opinion, is that legitimate or illegitimate?

Professor Yang: It is legitimate; it just should not be called supply chain finance.

Q456 **Richard Fuller:** What would you call it? I must admit that I am having a little bit of difficulty understanding the rarefied view of supply chain financing. I have never spoken to someone; I have never sold them anything; they have not bought anything; they have no relationship with me. However, I might in the future go and sell them something, and I can then go to somebody else and they will say, "I will lend you money based on that". You are telling me that is normal.

Professor Yang: It is a credit facility. It is just like having a credit card. Yes, it would be a lot riskier. It is not supply chain finance even in the broader sense.

Q457 **Richard Fuller:** What is the credibility? That is complete fantasy to me. I could not go to a bank and say, "Do you know what? In the future, I might sell something to Morrisons. I am going to sell some tomatoes to Morrisons. I think they are going to buy £1 million of tomatoes next year, so can you lend me £500,000 against that £1 million?" I do not think the bank would lend me that money. What is the credibility that enables other people to do it but not me to do it?

Professor Yang: Who do you mean by "other people"?

Richard Fuller: Greensill and Gupta.

Professor Yang: You are absolutely right that a responsible bank or a bank with good risk management procedures would not lend, but other banks could lend. That is why Greensill accumulated such a big exposure on GFG. I do not know the exact number, but according to the report the number is quite big.

Cynthia O'Murchu: The key point here is, as you say, Alex, around the idea of a responsible bank with good risk management. We are not just talking about Greensill, which is not a bank; we are talking about Credit Suisse, who invested millions and billions into these supply chain financing activities, including future receivables programmes that underpinned some of the debt. This is not just a bank lurking in an offshore jurisdiction that has no risk controls. We are talking about major banks here.

Professor Yang: Yes, I agree with that. I do not have as much information as Cynthia has, so I do not know. It seems to me that Greensill has a lot of exposure to GFG, so some of the assets are put into the German bank that it had and the other part is in the Credit Suisse supply chain finance fund. I do not have any information as to whether future receivables got into the supply chain finance fund or they are solely or primarily in the bank that Greensill operates.

If that is the case, that agrees with what I just said about banks. It is Greensill's risk management. I am not saying that Credit Suisse has no responsibility. I just simply do not know. I do not know the transactions between them.

Cynthia O'Murchu: We see a lot of esoteric, complicated and unusual transactions in finance, but I think it is ludicrous to say that you can sell things to someone who does not know you and who has never done any transactions with you. It is ludicrous.

Chair: Richard is nodding there. The point here is that, according to the submission from GFG Alliance, which we will publish, the lender, Greensill Capital, was supposedly, at its discretion, identifying the customers for GFG Alliance and entering into prospective receivables, which GFG Alliance then pulled finance down from without any potential interaction with their own customers in the future.

Q458 **Alan Brown:** As well as future receivables, another issue is circular finance. You reported in *The Sunday Times* about a circular trading scheme in which £2.5 million of steel coil was sold by Liberty Steel Newport to VS International and then on to another Sanjeev Gupta company, CS Management Services, and then it was returned to Liberty Steel Newport. At each stage in the process, they were able to raise invoices and receive money from Greensill.

How much was Liberty Steel reliant on this circular trading? Are there other examples of this? Why would Greensill continue to lend that money? There is one other thing that I am trying to get my head around. The only way that this could work is, ultimately, if you then sell it to a third party for enough money that it offsets all the other debts that you have accumulated through this multiple circular trading. Is there any evidence that Liberty Steel was able to actually do that in any functional sense?

Cynthia O'Murchu: First of all, this was reported by John Collingridge at *The Sunday Times*, not by ourselves. I am familiar with the particular scenario that you are outlining pretty much because of that article. As you have described, the idea there is that you can raise supply chain finance on the same invoice multiple times.

The core part of this type of transaction, when you sell an item multiple times through what may be related parties, is that you artificially increase your turnover and you are able to get additional lending on the basis of a transaction that has been inflated or made to look like it happens more often than it actually does. The core point here is that you are able to get more lending. You are increasing your turnover, if you are doing circular trading. You artificially make your turnover look way bigger, which make it more attractive for lenders to lend to you.

Q459 **Alan Brown:** The same *Sunday Times* article quoted my colleague on the Committee, Richard Fuller, calling it a Ponzi scheme. Is my colleague right? Is it just a Ponzi scheme?

Cynthia O'Murchu: It will be for the SFO to dig into figuring out the extent to which it is a Ponzi scheme, but it certainly looks like one. There are so many red flags. As we talk about the so-called friends of Sanjeev and the other invoices, I would like to make some points about Wyelands Bank and its lending to some of these so-called friends of Sanjeev and the transactions there. It is important to first understand what these so-called friends of Sanjeev are. Maybe we can go back to that afterwards.

Q460 **Alan Brown:** Alex, do you want to comment? Would you agree that it was just a Ponzi scheme and a way of generating money that was unsustainable? It is a scheme that could not continue; it is not a sustainable business practice.

Professor Yang: It is hard to say whether it is a Ponzi scheme or not. A Ponzi scheme requires something that could scale up in a different fashion. I agree that this is something very imaginative.

This is a type of circular financing, as Cynthia has mentioned. By doing this, I could artificially increase my accounts receivable and accounts payable at the same time. A basic principle of supply chain finance is that I look at the amounts of accounts receivable and accounts payable and that allows me to determine what amount to lend to you.

If we take an 80% discount on a transaction of $2.5 million, it would be $2 million per transaction. If I do this five times, I will have $10 million of financing based on the accounts receivable. At the same time, if I do the accounting properly, I would have $12.5 million of accounts payable. That basically means that the company's leverage is way up. If it reports it properly and, going back to my point, if Greensill was a company with good risk-management practices, it would have spotted this. This would be very suspicious.

Q461 **Alan Brown:** Cynthia, this has been touched on by the future receivables discussion, but you reported in the *Financial Times* about suspect invoices getting raised. As we have heard, these are invoices against companies that deny ever having any dealings or conversations with Liberty Steel. Would you say these were suspect invoices or is it more likely just to be fraud?

Cynthia O'Murchu: When we started reporting on this, as I mentioned earlier, we first said that Grant Thornton, the administrator of Greensill, was unable to verify invoices. We put this to GFG Alliance, who did not say that much but, in the aftermath, said that we had misunderstood and that these were prospective receivables. We did not think that these invoices were genuine at all. There were instances where you could see signatures and company seals that were near identical. They were cookie-cutter or cut-and-paste-type seals and signatures. We then talked to individual companies or company CEOs, who told us that they had never done business with GFG Alliance.

Equally importantly, Credit Suisse had a list of companies that were part of these accounts receivable programmes. I spent about a morning looking through this list of 50 companies. I contacted as many as I could. Notably, this portion was not audited by Credit Suisse. They should have audited it, because, if they had, they would have very quickly come to the conclusion that a lot of these underlying numbers and transactions do not seem to have happened.

In probably half a morning—I had a deadline—I had contacted maybe 10 or so companies, and about six or seven of them got back to me on time, and each and every one of them was emphatically saying that they had not done any business with GFG. Importantly, there were even ones in there who said that there was no reason why they would be doing business with GFG, including a copper producer who said that he never did, never has and never will conduct any business with GFG. He said that they were a copper producer and they would not even know what to do with the nickel that they were supposedly being sold.

There is another reason why I do not believe the invoices are right. If this was a prospective receivable transaction that someone at Greensill set up and decided, "Okay, we are going to sell $5 million of nickel to a copper producer", why would the invoice contain things like an exact dollar amount? It was not just $5 million, but $5,200,70.10. Why would you have where it is going to be shipped to? This does not quite make sense. Why would you say, "This is going to be shipped to a particular warehouse in the Netherlands," or wherever it might be. So, yes, we did not believe that these were genuine invoices. In terms of the idea that they are prospective receivables, as we have discussed before, we do not believe that these are real transactions.

Professor Yang: Cynthia, if I may ask, do the invoices that you have received have dates? Are they dated?

Cynthia O'Murchu: Yes.

Professor Yang: Are they dated in the past or in the future?

Cynthia O'Murchu: They are dated in the past.

Professor Yang: So they are not prospective receivables.

Cynthia O'Murchu: That is right, and that is an important point. Although Sanjeev Gupta is explaining that these are prospective receivables for Liberty Commodities, Liberty Commodities did not have a future receivables line. Other companies within the group did. Liberty Commodities did not. This is outlined in a Credit Suisse document that Credit Suisse produced, which showed specifically that Liberty Commodities did not have a future receivables line. It was an accounts receivable line. We have confirmed that with sources, but Credit Suisse has it in black and white in its documentation.

Q462 **Alan Brown:** That is clear. Just to reconfirm, you are saying that, rather than being future receivables, it is quite clear that the invoices were set up to make it look like it is a sale. It is a sale with an exact amount and it even showed where the product was allegedly shipped to. Therefore, it has to be fraudulent.

Cynthia O'Murchu: I cannot see another explanation for it. If Mr Gupta were to appear or to write to the Committee, he could change his explanation from prospective receivables that appear in this Credit Suisse supply chain finance fund to some other explanation. He is claiming that prospective receivables or future receivables were on that list of companies were in the Credit Suisse supply chain finance fund, but Credit Suisse disputes that, and the invoices very much point to the fact that that is not true.

Q463 **Alan Brown:** Javed, I see you want to come in there so I will let you come in, but I will also ask you another question. On the back of what we are hearing about future receivables and likely fraudulent invoices, Liberty Steel has assured us that it will refinance and get credit elsewhere. What reputable bank, when they hear what is happening, is going to help the company refinance?

Professor Siddiqui: In terms of future receivables, what Cynthia said was very interesting. If these are backdated, these are accounts receivables rather than future receivables and there has to be corresponding revenue recorded somewhere then. It is worth checking whether that is showing in their accounts, because we are talking about audited accounts. If this is in accounts receivable, that would have been recorded as revenue for the current year and should have inflated their profits.

In terms of questions about whether refinancing is possible, I find it very difficult to understand the whole idea of future receivables. I have studied accounting for a long time, but I still do not understand what future receivables are. You are talking about raising invoices. How can you raise an invoice against a transaction that has not happened with parties that you do not know?

From an auditing perspective, it would be a nightmare to be able to audit that. I do not know how you simply can audit a transaction that has not happened and you do not even know the parties.

Q464 **Alan Brown:** As a follow-on because of that, Liberty Steel is trying to refinance just now. They say they will be a going concern and that they are making profits. Liberty Steel Newport is now making profit, but what bank is going to help it refinance when it hears the activities of the company?

Professor Siddiqui: It will be difficult, I guess, but Liberty Steel might have assets that are worth it in terms of reducing risk. It might not be based on future receivables. Of course, that will have an impact on any decision-making process that the financers provide, but maybe Liberty

Steel still has good assets that are worth financing, so it might still be able to attract financing.

Q465 **Alan Brown:** There is one final question from me, and it is for Javed. Sanjeev Gupta wants to be at the forefront of green steel and decarbonising the steel-making process. In all likelihood, he is going to want money from the Chancellor to help that process. If you were advising the Chancellor, would you say, "Yes, this seems like a good company to invest in; he will be at the forefront of a green revolution"?

Professor Siddiqui: I would not advise on that, no. In terms of credibility and in terms of the way the transactions are happening, it does not look like sound advice.

Q466 **Chair:** There are two points of clarification from me. On this issue of circular financing, as a Committee we visited Liberty Steel Newport yesterday. We saw the site physically and the work they do. Essentially, they import slabs of steel, heat it up, roll it up and send it off to other wholesalers. As one example, the metal flooring with the grooves in it that you might see is something they make.

There is this issue around Liberty Steel Newport selling that roll of steel to VS International, CS Management and then back to Liberty Steel Newport. Understanding what they are making, that does not make sense, because neither VS International nor CS Management is laying steel flooring.

In the submission from Mr Gupta this morning—I mentioned this earlier but I just want to go back to it—he said that this process is perfectly normal in the commodities world but also in financial markets. He said that this is what is called a tripartite repurchase agreement. He is saying that Liberty Steel Newport has made a roll of steel but does not have a customer at that point, so it does not need it. Therefore, it is selling that to VS International and then to CS Management on the understanding that they will sell it back to Liberty Steel Newport when they have a customer to sell it to. He says that is a legitimate business operation. Professor Siddiqui and Professor Yang, does that sound reasonable or not?

Professor Siddiqui: Not to me at least, no. You are selling the same product in a sense. You have the same product being sold out to a company and then you are purchasing it back. It does not look like a regular practice to me.

Q467 **Chair:** Professor Yang, you agree with that, do you?

Professor Yang: I agree. This is quite unusual. Also, if they have a lot of inventory and they want to get finance based on that inventory, why did they not go with inventory-based financing? That would have been a lot easier, especially given the fact that they are selling a commodity. It is quite easy to get inventory-based financing on that. Instead, they found a seller, signed a repurchase agreement and borrowed against accounts receivable, which seems unusual to me.

Q468 **Chair:** Cynthia, lastly from me, on these suspect invoices, I want to read directly from the written evidence we have had this morning. GFG Alliance has said that, as part of Greensill's prospective receivables programme, Greensill employees identified companies with whom its counterparties could potentially do business in the future. Greensill Capital then determined, at its discretion and based on insurance capacity it had, the amount of each prospective receivables purchase and its maturity.

In that submission, it sounds as if GFG Alliance is saying that Greensill Capital identified somebody to buy the steel, identified the terms of that and set the whole deal up. From the invoices that you have seen, which presumably have been raised by GFG Alliance companies and not by Greensill Capital, does that help you understand the context of those invoices or not?

Cynthia O'Murchu: No, it does not, unless someone at Greensill sat down and started manufacturing invoices, which does not make sense in the way that they are presented.

Chair: No. That was my thought too, but I thought I would ask.

Q469 **Mark Pawsey:** I want to ask questions about the role of the auditor, but I want to stick with this business about future receivables. If I might, I will go to Professor Siddiqui. We have heard from Cynthia about the importance of the date on these invoices. Two other critical features on an invoice are the quantity and the price.

Liberty Steel deals in a commodity. We went to Newport yesterday, as you have heard, and we heard a great deal about the fluctuation in the price of steel. What price gets put on these future receivables? If it is anticipating a sale in the future, how do you determine what the price is going to be in the future? How accurate can that be as a representation of the business?

Professor Siddiqui, in the same way as Cynthia is telling us that use of these invoices on multiple occasions could present an inaccurate picture or an overly favourable picture of a business, could the price on these future receivables invoices be manipulated to similarly present a picture that is more favourable than the true picture in terms of the state of a business?

Professor Siddiqui: In terms of predicting the future price, it might be possible to base it on historical prices, but, as you say, it is a very volatile industry; it might be very difficult to predict it accurately, especially if you are talking about going forward a few years. In terms of accuracy, it would be very hard. As you said, there is a potential to inflate your profits, or inflate your revenues at least, in the process, if you are able to show a higher price. This is where I would say the auditors' role was crucial in terms of inspecting whether those estimates are logical and what those were based on. This is where, as you said, auditing has a crucial role to play.

Q470 **Mark Pawsey:** Professor Siddiqui, a few minutes ago you said that GFG Alliance would be a nightmare to audit. We took evidence from Mr Patel at King and King last week. Do you think they are up to the job?

Professor Siddiqui: First, let us make it clear that GFG Alliance is not an entity itself. It is a very strange structure with lots of companies combining into an alliance, but each of those companies is a separate entity.

I heard what Mr Patel said last week. In terms of their capacity, from what I understand, King and King is a six-partner firm and only two of them are chartered accountants. I understand that the total number of employees is 40, including administrative staff. Just to put it in context, it is not fair to compare them with the big four, but the big four would have an average partner size of 750 and employee size of nearly 275,000 in the UK. That puts King and King into context. It is a very small firm, but the revenue of GFG Alliance that they have audited in total is more than £2.5 billion, which then puts it into the category of a top-50 FTSE company in terms of revenues.

In terms of capacity, if they have two engagement partners—that is what I understand they have—who are working 40 hours a week, and they have 800 clients, a basic calculation would indicate that each partner would have five hours in terms of a particular client. If you look at the particular GFG Alliance or Liberty companies that this auditor audits, they took over as an auditor in 2018, as I understand, so it is quite a new audit, in a sense. They have no prior knowledge of these companies. It is a very complicated governance structure. You have, as I said, a number of companies. Taken together, they do not produce consolidated financial statements. There are a number of red flags.

If you look into that, just before King and King took over, another audit firm, MHA MacIntyre Hudson, actually resigned as an auditor of Liberty Precision Tubes. That is, again, a red flag for an incoming auditor. As I understand from media reports, it was because of disagreements with the management regarding valuations of stuff. If you look at the way that this group of companies is audited, King and King audits 60-odd companies and there are other audit firms involved. As an auditor, you are never going to get a complete picture of how this group is performing or how this alliance is performing.

If you think about King and King, I would have picked a small firm—that is fine—if they were industry specialists and if they had experience of this. It is very difficult to get information from King and King, but it does not look like that. There are a number of red flags, and that would have required a lot more auditor thought coming from King and King. I am not completely sure whether they had the capacity. They would be absolutely stretched; they would be severely stretched.

Q471 **Mark Pawsey:** Is there anything unusual about a firm of King and King's size auditing a group of companies the size of GFG Alliance?

Professor Siddiqui: If you think about it from the perspective of GFG Alliance, why would you pick an audit firm that is small when you could have picked a big four firm or another challenger firm that are perhaps equally competent?

From an auditing perspective, I know this is a small firm. I would only pick it up perhaps with the intention of trying to dominate the auditors. Whether that has happened or not, we do not know. This particular audit firm is likely to be highly dependent on GFG Alliance, or the 60 companies, for its fees. When that happens, there is always a perception problem. I am sure nothing has happened; I do not know what has happened in terms of audit. There is at least a perception problem when you see a large group of companies or a large alliance being audited by a small firm, unless, as I said, it is an industry specialist.

Q472 **Mark Pawsey:** All of our witnesses today, yourself and your two colleagues there, have told us about concerns about the treatment of some of these invoices. Is that something that King and King would have been expected to investigate more fully? Would they have had the resource to identify what we have heard about?

Professor Siddiqui: In terms of what we know about this particular audit, we know nothing, basically. It is not a public interest entity, so they do not produce audit reports in the enhanced form. We do not know what the key audit matters were or what materiality threshold was applied. We do not actually know whether they were able to audit these transactions as you would expect them to.

Q473 **Mark Pawsey:** With the treatment of the invoices that we have heard about during today's evidence session, would you expect that to be referred to in notes in the accounts?

Professor Siddiqui: If this were a future receivable, as we understand, this would have to be disclosed in the accounts somewhere.

Q474 **Mark Pawsey:** Has it been disclosed in the accounts?

Professor Siddiqui: I have not seen the accounts because they are not publicly available. It is very difficult to get information about that. It does not seem to disclose that. At least in the two or three I have seen, that does not seem to have happened.

Q475 **Mark Pawsey:** Professor Siddiqui, you have just said that the GFG companies would have made up a large proportion of King and King's income. Do you think there is any truth in the statement that King and King were selected because they were willing to do what Mr Gupta wanted them to do?

Professor Siddiqui: As I said, perhaps; it is possible. It is a commonly exercised thing in many private companies that you pick auditors that you could possibly dominate, but we do not have any evidence of that at the moment.

Cynthia O'Murchu: May I just add something on King and King? Just to go back to the point, it is unimaginable that King and King does not know who the proverbial hand that feeds them is.

As Javed has just mentioned, the amount of companies that form part of the GFG Alliance that they have audited is significant, but it is not only that. Based on publicly available information, I looked at the top 50 companies by turnover that King and King audits. The top 50 get us into the territory of companies that have a turnover of more than £60 million. There is a number of them that have hundreds of millions, but the majority of companies where it acts as either an accountant or an auditor have turnovers of less than £60 million.

Of the top 50, 30 of those are GFG companies or are, as we will talk about later, friends of Sanjeev, i.e. companies that have very strong trading relationships with Liberty. The people who own these companies are also potentially former employees of Liberty. 18 of those were directly owned by GFG and Liberty. Overall, out of this top 50, 20 of these entities have accounts that are overdue. That does not paint a picture that makes me believe they can say, "I speak to Sanjeev Gupta once or twice a year", though I forget now the amount he said. Importantly, in some of these cases Sanjeev Gupta was the only director in some of these companies. The sole director until recently was Sanjeev Gupta. Who was the engagement partner communicating with when doing these audits if the only director and owner of the company was Sanjeev Gupta?

In terms of other irregularities, as you may have mentioned in the questions to Mr Patel of King and King, for a lot of these accounts, especially at very crucial moments, such as in 2018, as we can talk about later on, the accounting dates were changed multiple times. There is a clear pattern here. We have written in our article that the accounts of at least 24 GFG companies have changed their accounting period twice or more since 2019.

To cap it off, Mr Patel has said to the Committee that he does not know what future receivables are and that he had never heard the term before he read it in the newspaper. That is a huge problem. Mr Patel is the engagement partner. One of the entities that has a future receivables line and got a future receivables line from Greensill is an entity that King and King audited. How can you audit the accounts of a company when future receivables are a large part of its financing? That, to me, does not sound credible.

There is another point here about a situation with one of the "friends of Sanjeev" companies, or a company that we have been told is very closely connected. It filed dormant accounts and, whether coincidentally or not, shortly after my colleagues, Michael Pooler and Robert Smith, wrote a story mentioning this company, it amended its accounts to show that it had actually had £100 million of turnover that year. These are a lot of red flags that I would like to point out, which are really important in this context.

Chair: Thank you for that. Certainly, going from dormant to £100 million sounds like a good year for a business.

Q476 **Charlotte Nichols:** My question is to Professor Siddiqui. Reuters and the *Times* have both reported that multiple auditors, including HW Fisher and MHA MacIntyre Hudson resigned from auditing some GFG Alliance companies. MHA resigned due to discrepancies between its and GFG Alliance's valuations of GFG assets for the year ending March 2018. I wonder whether you can tell the Committee what these resignations suggest about the corporate governance and financial standards of GFG companies.

Professor Siddiqui: Auditor resignation only happens when you are not getting enough information from the management, when there is no evidence to form an opinion. Auditors are supposed to express an opinion. If you are not getting that information, it might be due to a limitation of scope. If you are not able to gather evidence, whether that is unintentional or the management is not letting you do that, the auditors will resign or withdraw from that particular assignment.

This immediately raises a red flag for the new auditor coming in. It is not usual practice. It only happens when there was not any evidence. The first thing that they would explore is why that happened. Of course, that does reflect on GFG's poor corporate governance mechanisms. The whole trouble is that it is an alliance. It does not have a structure of its own, so it has a very difficult, very complex corporate governance structure. Of course, if it was a consolidated group of companies, you would expect a proper structure of governance. Then, that would have at least mitigated some of these concerns, but, of course, that reflects badly on the poor governance on GFG's part.

Q477 **Charlotte Nichols:** Just in terms of a quick follow-up, on the basis of the fact that multiple auditors resigned, I am interested in whether you think there was a role for organisations such as the Financial Conduct Authority, for example, to intervene in some way or whether that falls outside its remit.

Professor Siddiqui: The whole trouble with this case is that we are not talking about a public interest entity. If you look into the reforms that have been directed in recent times, everything is about public interest, large companies and big-four auditors. This is quite an unregulated space we are talking about. This is not a small firm. As you can see, it is not a small company if you talk about the alliance. Maybe this is something that is escaping the regulatory radar at the moment because of the scale and also because of the way they have designed the governance structure of the company.

I am not sure whether the Financial Conduct Authority would have been involved because, on its face, individually the 50 companies are not large enough. Taken together, as you can see, it becomes a public interest.

Chair: Professor Siddiqui, I am sorry to keep reading things out to you, but I am keen to get your view, as well as the views of the other witnesses. We have received a letter from Grant Thornton about the revaluation of the SIMEC Hydropower company. Because I do not understand these things, I just want to get your view. Grant Thornton says in a letter to us that, when it prepared the financial statements in 2016 for SIMEC Hydropower 2 Ltd—and this is in relation to the Scottish plant that GFG Alliance owns—the new management, so Sanjeev Gupta, chose to measure the value of those hydropower plants based on their market value rather than at their depreciated historic cost, i.e. the amount at which the assets were originally acquired or constructed and subsequently depreciated. It then goes on to say that the valuation is based on a discounted cashflow forecast methodology based on the plant's future expected earning capacity.

My understanding of reading that says that you have a physical asset that the company owns. It had an accounting value or a market value. The market value assessment is based on what the management tells you the earning capacity of that company and that asset is going to be in the future. Presumably, you base your assessment on that earning capacity based on, maybe, future receivables. Have I understood that correctly?

Professor Siddiqui: As you say, there are two ways of valuing an asset. Normally, we would have used its historical cost, which is based on past transactions, the actual acquisition cost of the particular asset. In this case, they have used the market value of the asset, which is based on future cashflows, discounted cashflows in a sense. Now, these future cashflows would be based on forecasts made by the management perhaps. Also, perhaps the auditors would look into those forecasts to see whether these forecasts are reasonable or not. That is how this happens. Whether those forecasts have been looked at or not, we do not know, but this is how the process works.

Q478 **Chair:** That would be a question for Grant Thornton: "When the company told you how much they expect to earn in the future and you checked their assumptions, were those assumptions based on accounts receivable or prospective receivables or any other assessment?"

Professor Siddiqui: Yes, absolutely.

Q479 **Ms Ghani:** Thank you to the witnesses. The evidence this morning has been fascinating. I am going to follow on from questions from my colleague, Charlotte Nichols, and I am going to come to Mr Siddiqui first. We have heard a lot about filing of accounts and so many red flags that were raised, yet here we are. Not filing an annual report is a criminal offence that holds just a £1,500 maximum penalty for late filing for a private company. I am not sure that matters a dot when you are valued at over £1 billion, but I just want to dig down into how the accounting reporting periods have been constructed.

Mr Siddiqui, the *Sunday Times* reported that multiple GFG Alliance companies had delayed their accounting reporting periods. Why might a company or group of companies do this? Why do you think they have done this?

Professor Siddiqui: In terms of changing accounting years, this is unusual but it is allowed. At the moment, you can extend your accounting period to 18 months, but that can only happen once in every five years, unless Companies House has allowed you to do so. This is the procedure.

Why would a company change its accounting periods? Typically, it would do that, for example, when it is talking about pushing back tax liabilities. In some cases, it would do that also because it does not want to submit the accounts because what is happening with the accounts would become public knowledge. I do not know what has been the case, but this is something that, of course, should be investigated. It is highly unusual that 17 of those companies are delaying their accounting. As I say, this is a massive red flag, again, for the authorities to investigate.

Q480 **Ms Ghani:** It is definitely another red flag. I will follow on from there and possibly go to Cynthia. As we have already discussed, 24 GFG Alliance companies have changed their accounting deadlines two or more times since 2019. In a previous evidence session, Milan Patel, the partner at King and King, told us that changing accounting deadlines twice in this timeframe is "not frequent". Do you agree with this statement?

Cynthia O'Murchu: I would disagree. We are seeing a clear pattern of companies changing their accounting dates multiple times, not just once. As Javed was saying, obviously there are situations. For example, you make an acquisition and you want to do the accounts for the companies on the same date. That would be a valid reason to do that, but this is happening multiple times. The company gets set up in 2017 and, within three years, changes the accounting date three times; that, to me, is a huge red flag, as opposed to normal.

Q481 **Ms Ghani:** Could it be argued that it is more than a red flag, and that somehow this was an act to secure funding or loans in a duplicitous way?

Cynthia O'Murchu: For me, it would be more an obfuscation. Ultimately, it will be down, again, to the investigatory bodies to really dig into this and hear all the evidence as to why this was done and whether there are legitimate reasons to do so. All we can see are huge red flags. The reason why they are extra-red flags is that, specifically, we have seen this pattern happening in 2018, when there were hundreds of millions of trades done with these companies and, also, very importantly, during those years—again, I keep talking about the friends of Sanjeev; we can come to that—companies that were associated with GFG but are supposedly independent have taken loans from Wyelands Bank to acquire assets that used to belong to GFG companies, and some of the accounts there are not being filed or were not being filed on time. The example of the company that went from dormant to £100 million is an instance of that.

Q482 **Ms Ghani:** Cynthia, I am going to come to you again, because you have already mentioned supply chain finance and I wanted to expand on your response earlier. Supply chain finance does not need to be classified as debt on a company's balance sheet. Instead, it can be classified as trade payable or accounts payable for auditing purposes. Could supply chain finance, therefore, be used to present a stronger financial position than may actually be the case?

Cynthia O'Murchu: Yes, absolutely, because, if it is in an accounts payable or receivable line, you cannot really extricate how much of this is lending by financial institutions and how much of this is lending based on actual invoices because it all gets mingled together. We have seen this problem happen with NMC Health, on which we have also reported, which had billions of debt that was not declared, essentially. There are strong allegations of false invoices underpinning a lot of this debt as well.

Q483 **Ms Ghani:** Mr Siddiqui, I saw you nodding there. Is there anything you wish to add?

Professor Siddiqui: Normally, there is an option to either classify this as a trade payable or as a loan. Because this is typically an operations-type transaction, you would expect this to be recorded as a trade payable. Now, whether this is based on future receivables or future contracts, I do not know. There are implications in terms of the financial health of the company as shown in the balance sheet because, if it is shown as a trade payable, it goes within the working capital of the firm. If it shows as a liability, as you would expect for a bank loan, it should be going into the financing area.

Just to finish, it also has implications on cashflow. If you think about it, when you make the payment against a trade payable, that would be going out from the operating side of the cashflow. If it is paid out as a loan, that would be going out of the financing side of the cashflow. However, this is not a bank loan we are talking about.

Q484 **Ms Ghani:** Mr Yang, I am just about to come to you. Following on from what Mr Siddiqui has said, there are media reports that the way that this accounting has been done is a strategy that is applied by GFG Alliance. We have already heard from Mr Siddiqui why we should be concerned, because it is a poor reflection of the health of a company. Mr Yang, what is your view on this and what is the worst-case scenario that you believe is being hidden by the accounting structure?

Professor Yang: One thing I want to add on to the previous discussion was that all of what we have discussed about GFG's transactions is not particularly related to the classification of whether it is accounts payable or a loan. All the discussions we had on GFG are about GFG's receivables, so that is not GFG's payable. GFG's payable would be the money that it owed to its suppliers. Normal reverse factoring programmes are related to how, if I am a supplier to GFG, based on the invoice I hold from GFG, I could discount that invoice so that I could get my money back early.

The problem that you have raised is a very important one. This normally arises when I, a company like GFG, want to borrow money but I am not directly borrowing from a bank and I am instead borrowing through my suppliers. I am extending credit terms to my suppliers so that my suppliers have to use reverse factoring programmes to borrow money. That is where the distinction between accounts payable and liability like bank loans comes about. What we have talked about regarding GFG's future receivables is GFG's receivable. That is basically the money GFG's customers owe to GFG or the future customers. I do not know. Those two are a little bit different.

I would be quite curious to know, based on the all the information that you had, whether GFG or Liberty Steel had a reverse factoring supply chain finance type of programme. Based on the reporting that Liberty Commodities filed with the Department for Business, Energy and Industrial Strategy, they do not. I am curious whether that is really the case. I could not find the reporting from Liberty Steel. I am assuming Liberty Steel is a big enough company that it should be filing this report, but I do not know why I cannot find it.

Ms Ghani: I am sure the Chair is listening to that, Mr Yang.

Q485 **Richard Fuller:** I feel that we are being visited by the spirit of Donald Rumsfeld when we are talking about receivables. We have receivables that are to known customers for known sales, much like a mobile operator might have. Then there are known customers where you do not know what you might sell them but you might. Then you have unknown customers with unknown sales. A lot of the focus has been on the third of those Rumsfeldian levels. It leads to quite a lot of concern about how that is being treated in audit, how people have to make those judgments and how it is in reports that are provided by company directors.

Professor Yang, has your reading of the experience of GFG Alliance and Greensill changed, moved or strengthened your view about any changes that you think ought to be made by those who oversee the auditing profession?

Professor Yang: I am not an expert in auditing, so maybe I will refer to Javed to answer that question. I really like your classification about the three types of knowns and unknowns. I really do not know how this type of prospective receivable will be reflected on financial statements, because they are receivables that do not exist. If my understanding is correct, their sole existence is for the purpose of GFG to obtain additional financing. That financing should be classified as debt; there is no question about that. If we look at the International Financial Reporting Standards, they basically specify what can be classified as trade payable or trade receivable. This type of prospective receivables is not.

Q486 **Richard Fuller:** Professor Siddiqui, have you had a chance to get familiar with the GFG corporate structure?

Professor Siddiqui: I tried to study it. It is quite difficult to understand what is going on because, as I say, it is an alliance rather than a proper corporate structure. It does not have a corporate structure.

Q487 **Richard Fuller:** As you got to grips with it, tell the Committee your own thoughts. What issues and triggers have been raised in your mind as you have gone through? Does it seem pretty much business as usual?

Professor Siddiqui: If you think about a company with the size of GFG Alliance, if you take it together, perhaps it will even qualify as a PIE, with the new definition that has been proposed. If that had happened then you would have all this stuff about audit committees and independent directors, so you would have a proper governance structure. Then the auditor could go to them. Of course, despite that, things will happen, but there is still some kind of a check and balance.

If you look at this particular alliance or group of companies that we are talking about, each of them is classified as a very small company, although the turnover seems to be quite high in some cases. As a result, they do not have any requirements. The combined code does not apply. It will not even fall under the audit reforms that BEIS is proposing, because the PIE definition still would not cover this particular alliance, so there are major concerns.

Going back to your previous question to Alex as well on whether it will have implications on the profession, as I said, there has been an emphasis on big four. There has been an emphasis on challenger firms, as we have seen. I know this is not the purview of this particular investigation, but I understand that there is an implication of this particular case on audit reforms as well, because, somewhere down the line, we are missing the small firms; we are missing the focus on professionalism. If that was done and professional scepticism was applied, as you would expect from a one-person audit firm or a 100,000-person audit firm, it is the same, but that has not been applied in this case.

Q488 **Richard Fuller:** Have you been able to find on a page somewhere on the GFG website a list of what is in the alliance? Can you actually put the boundary around the GFG Alliance?

Professor Siddiqui: It is very difficult. If you go to the website, there are lists of different companies in one place. Then you click on to them and it seems to be taking you to that particular company. Then I heard that King and King is auditing 60-odd companies. There are more companies within that alliance, so it is very difficult to find, as you say, the actual boundary of this particular alliance. As I understand, there are friends of Sanjeev as well, which might be very closely connected companies, so it is very difficult to understand what is going on. As I said, if I were an auditor, I would be very worried about the governance structure of this particular firm.

Q489 **Richard Fuller:** Maybe, with Ms O'Murchu, I will come to the aspects of the boundaries between friends of Sanjeev and the company in a minute. Did you look at the role of the Singaporean holding companies and the other family members of Mr Gupta? What is the role of those entities and those people?

Professor Siddiqui: Again, it is very unclear at the moment, because you can see that, in some cases, of course, they do not mention that they are family members. There seems to be some kind of information of the holding company in Singapore. Whether the transactions actually take place in between these companies is not very clear at the moment. There are, as I said, lots of concerns about these connections. These connections perhaps provide the key to any investigations about GFG, because I think that is where the problem lies. Because we do not have enough information publicly available, we cannot see all these connections very clearly, but my suspicion would be there would be explicit connections between them.

Q490 **Richard Fuller:** If the corporate structure, as you say, is not at all clear, let us follow the money. Where is the central treasury of this business, or is there no central treasury?

Professor Siddiqui: There must be something. I was listening to the CFO of GFG, but he did not seem to know where it was coming from. At the same time, he was also saying that audit was co-ordinated, which means there must be a pot where all these things are being taken to and then that has been co-ordinated. This is, again, something that is going to be very interesting. At the moment, it is divided across 100-odd companies, but, as the CFO was mentioning, if the audit is being co-ordinated together, they must be knowing what is going on.

Q491 **Richard Fuller:** When you say the CFO, are you referring to the gentleman who came to report to the Committee last week?

Professor Siddiqui: Yes.

Richard Fuller: He is actually the chief financial officer of Liberty Steel, not of GFG. It would not be his purview, in fact. To be fair to the gentleman, he has a very limited remit in the whole group. Your point is that there must be a source of central funding somewhere.

Professor Siddiqui: Otherwise, it is going to be very difficult to run a business like that, as I understand. I am not a businessman so I do not understand things very clearly, but of course it is going to be very difficult not to put in a proper governance arrangement, because you would have to have a central CFO somewhere to look into your overall group or business. That does not seem to be taking place at the moment. Why you would not put it there is a question to be raised.

Cynthia O'Murchu: Notably, GFG said a little while back that it was going to produce consolidated accounts, but they have not materialised.

Professor Siddiqui: That was two years back or something like that, was it not?

Q492 **Richard Fuller:** I think that their latest estimate is that they will producing those for the year-end March 2021, so they will perhaps be available in September or October, if their auditors get their skates on.

Ms O'Murchu, why Wyelands Bank? Why is that in GFG?

Cynthia O'Murchu: Sanjeev Gupta has previously said that part of the reason why he acquired Wyelands Bank was to work with GFG Alliance companies. Whenever the *FT* has raised questions about the connections between loans made by Wyelands Bank to GFG companies, and in particular to so-called "friends of Sanjeev" companies, it has dismissed that as a concern, saying that was always part of the business plan.

Q493 **Richard Fuller:** What would be the advantage or additional advantage of owning a bank then to lend money to friends of Sanjeev?

Cynthia O'Murchu: You would be able to give loans to companies that maybe should not be getting loans, for example.

Q494 **Richard Fuller:** The potential is that the audit overview or review of borrower sustainability may be at a lower level.

Cynthia O'Murchu: Yes. We have heard from Mr Rose, who was talking about the questions around the connectedness between the individuals who own the companies that received loans from Wyelands Bank, that it has done its review. In its review, it suggested it was a level of connectedness. I would go further than that. There is definitely strong evidence or strong red flags to say that these are not just connected but more than that.

Q495 **Richard Fuller:** You may argue that, but, as far as we know, there is no evidence.

Cynthia O'Murchu: I can explain why I think that. This is an important part of the puzzle, which also goes to the level of transactions that Liberty Commodities has done with its own GFG companies but also with the so-called friends of Sanjeev. If I can go back a little bit, essentially, internally, a number of companies and individuals were referred to as friends of Sanjeev. There were people within GFG who called these "friends of Sanjeev", or "FOS" for short. These were companies that were or are, ostensibly, fully independent companies that have a trading relationship with, for example, Liberty Commodities.

Now, the implication of them being called "friends of Sanjeev" was that they were not quite independent. Of course, there are rules in terms of accounting—maybe my fellow witnesses can speak to this—as to what is considered a related party and what is not. It is very important to be transparent about that.

I keep mentioning red flags, but there were huge red flags raised, for instance, by my colleagues when they wrote about acquisitions, made by these so-called "friends of Sanjeev" companies, of assets that belonged to SIMEC with funding from Wyelands Bank. Wyelands Bank gives them a loan and the companies, which may not have existed before—they are newly set-up or very young companies—buy the assets from SIMEC companies and then sell them on down the line.

There are serious questions about how independent these companies are. Are they related parties? Should they be classified as related parties? Are these transactions set up to artificially increase the turnover of these companies? Now, we have spent a long time analysing a ledger that we obtained of transactions. It was receivables and payables from Liberty Commodities at a particular year-end date. The accounts for those companies in question that did the trade and owed these funds to the various Liberty companies did not file the accounts on time, so it became very difficult to find the corresponding account entries in the companies themselves and the main company. The bottom line is we looked at about $1.5 billion of transactions.

Q496 **Richard Fuller:** Just to be clear, what was the type of source for that $1.5 billion of transactions?

Cynthia O'Murchu: It is an internal ledger that showed the amounts of receivables that were due to Liberty Commodities companies.

Q497 **Richard Fuller:** That was an internal ledger of Liberty Commodities.

Cynthia O'Murchu: Yes, exactly. It was showing that, for example, the company was owed X million from company A, another X million from company B and so forth at year-end. We were able to tie together about three-quarters of the amount to GFG companies and so-called friends of Sanjeev, meaning that it shows that there is a huge number of trading relationships between GFG companies within themselves, or companies within the GFG Alliance, but also with the so-called friends. The scale is huge.

Q498 **Richard Fuller:** Just help those of us who are perhaps not as smart as you. You are saying you have, let us say, a year-end ledger. It may not be a year-end ledger. It lists the receivables—monies that are owed. Three-quarters of those, through your analysis, were to companies that are part of the alliance or might be reasonably thought to have some form of relationship to the alliance.

Cynthia O'Murchu: Yes, that is right.

Q499 **Richard Fuller:** That is a very large proportion, as you said. Is that a fair indicator of what, ultimately, might be looked at as the revenue of Liberty

Commodities on its annual profit and loss?

Cynthia O'Murchu: Yes, I would say so.

Q500 **Richard Fuller:** Potentially, three quarters of the revenues that are reported for Liberty Commodities may be transactions within GFG companies or their near associates.

Cynthia O'Murchu: Yes, potentially. We obviously do not have a full picture of everything, but it is certainly something to be looked at.

Q501 **Richard Fuller:** Cynthia, I am going to come back to you. That is an interesting point. I do not want to go down a rabbit-hole if it is not legitimised, but it has intrigued me.

Professor Yang, what is in my head is, if I had a ledger, with three-quarters receivables, that was indicative of what the actual trading was at any point in time and therefore what a year's trading would look like, and three-quarters of my reported revenues were to companies that were under the ultimate control of the person who is in ultimate control of my business, I would have a question mark if the auditors came to me and said to me, "Are these all third-party transactions?" What would I say?

Professor Yang: Before I answer that question, one small thing is that three-quarters of accounts receivables may not necessarily convert to three-quarters of revenue. That only holds assuming all the terms of trade are exactly the same. If the terms of trade vary significantly between different customers, that may not hold. I agree with you that, if it is three-quarters of accounts receivables, the revenue must be quite a big number.

To me, from a logical perspective, that makes a lot of sense as to why they go into supply chain finance as a primary source of financing. Basically, they can, using this type of internal transaction, increase the volumes both on revenue and, in particular, accounts receivables and the accounts payable. By doing that, they gain more financing and that allows them to grow. As an auditor or as someone who comes in to see this, this is suspicious, of course.

Cynthia O'Murchu: Just to follow on from this thought, we saw a pattern there. We saw a lot of these companies that were on the ledger. We saw a lot of them were audited by King and King. We saw a lot of them shared an address. Also, as I mentioned before, we had companies that fit that profile that also got loans from Wyelands Bank. More importantly and very curiously, some of these loan documents or mortgages were signed not by the person who was taking the loan or the director of the company who was taking the loan but by the CFO of SIMEC, which I think is highly unusual.

As I said, GFG's response to this was always, "It has been clear that different parts of the group trade with each other on commercial terms and that doing business with people that you have known for a long time and with whom you have a very good relationship is not a bad thing. It can actually be safer".

One could say that it is circumstantial evidence, but we have seen information that makes me absolutely convinced that this is not just circumstantial. For example, we have written in one of our stories that there was a company called Inventia Trading that had also done business with Liberty. There is an email communication between the CEO of Liberty Commodities with the finance director, and they are discussing this company as if it was Liberty's company, not a company that belongs to someone entirely different who is an arm's-length customer that may at one point buy steel. They are talking about, "How can we process the audit for this company?" Why is the CEO of Liberty Commodities discussing how to process an audit for a company of which he is neither a shareholder nor a director? Why are they saying things like, "We need to discuss what the role of this company is now and how we can make good use of it going forward". That does not make any sense.

As we went through reporting on this story, we mapped more than 100 of these companies. I mentioned the shared address. I mentioned King and King as an auditor. What we saw is that some of these people who own these companies had gone and become shareholder of one company and then moved to another company, or became director of one company and then another company. These are not just little breadcrumbs of connections.

We also had cases where these people seem to still work at GFG or Liberty companies. In one case, I contacted the person on a phone number that I had, which led me to Liberty House, an office in Dubai. They told me, "Yes, this person has been with us for a long time". This was supposedly an entirely independent company.

They set up domain names, meaning they set up registrations where you can build a website. The email address of a Liberty House employee was used to set up 40 or more domain names, many of which corresponded to the companies that were on this ledger that we were analysing. Why, suddenly, would someone at Liberty House register a web domain for a company that then gets set up the next day or the next week, which supposedly is independent? Why would Liberty House do the secretarial work for an entirely independent company?

We also have looked at information that came from the Panama papers, the leak of information that came from the Mossack Fonseca law firm in Panama. It was very clear from these email conversations that Sanjeev Gupta took a very close interest in the administration of some of these companies. For example, we have had an email where Sanjeev Gupta is asking people at Mossack Fonseca to set up offshore companies. He specifically does this for two very long-term associates of his. He says, "Select one of the companies, immediately use a nominee director and the shareholder will be this man called Vladimir Delic", who is a long-term business associate of Sanjeev Gupta. Why does Sanjeev Gupta set up offshore companies for people?

Q502 **Richard Fuller:** I am sure that Mr Gupta, if he was here, would be able to answer. I do not want to cut you off, but to keep a little to the boundaries of this inquiry, the implications are, from what you have said, that, building on the lack of concern around the structure and boundaries of GFG Alliance, there is a penumbra around that where there are relationships that are going about which there are a number of questions, which have been raised in your newspaper and other newspapers, that might have an implication on the financial stability of the whole group.

Cynthia O'Murchu: Yes, absolutely. The question is whether these are independent companies. Are the invoices that underpin the debt GFG raised real, and are they from independent businesses working with GFG or acting as GFG?

Q503 **Richard Fuller:** Correct. If you look at the levels that would legitimise that, first, it would be the chief financial officer of the company; then it would be the board of directors of the company; then it would be the auditor of the company; then, if necessary, it would go outside.

Professor Siddiqui, earlier we noted that there is no CFO at the top of the company. I think I am right in saying that. There is no chief financial officer in the group. There has not, until recently, been an independent board of directors. We have heard there has, in the past, only been one director, usually Mr Sanjeev Gupta. Does that raise alarm bells for you too?

Professor Siddiqui: The shortest answer is yes, of course it does. It raises a lot of alarm bells to everybody, perhaps. Also, just on this question on related parties, if it is a related party, that should have been disclosed in the accounts. It is a requirement to make a disclosure in the accounts. Whether that has been made or not is crucial evidence as well.

Q504 **Richard Fuller:** Ms O'Murchu, you mentioned Credit Suisse. Of course, it has had a longstanding relationship with Greensill and, through that, with GFG. You talked about the book of business that Credit Suisse has put in place. After the banking collapse of 2008, there was the banking reform here and the banking commission, and the UK Government put in place regulations that required criminal sanctions for boards of directors of banks when fraudulent behaviour was going on in their business, even if they had not had direct sight of that on their board, because we wanted to up the game for the governance and controls.

From your understanding so far, does this action by Credit Suisse come anywhere close to meeting a threshold where questions ought to be asked about the governance procedures at the top of the bank in terms of what was going on in the book of business that you analysed?

Cynthia O'Murchu: I certainly think questions should be asked. Whether it rises to the level of what you indicate, I am not a lawyer, so I do not really know, but there are enormous questions to be asked about Credit Suisse’s due diligence.

Q505 **Richard Fuller:** You are quite right, because we do not know. To be fair, that was an assertion. The reason why I raise the question is because Credit Suisse is also now involved as a counterparty; it wants to get its money back, essentially. It is having to have discreet discussions, jurisdiction by jurisdiction, with GFG Alliance. There is potentially one in Australia and one that may come in other parts of the empire. How does that work in finance? Is it quite a normal pattern of behaviour to go after each discretely? What is the mindset of Credit Suisse right now as it goes through these negotiations to get its money back?

Cynthia O’Murchu: I am not quite the right person to speak to that. The bottom line is that you have a dance to do. If the company goes bankrupt, you are definitely not going to get anything back. If you somehow keep the money flowing, you have a chance of recouping. If they go bankrupt, you may see some money back but you are going to have a harder time getting money back. I am not really quite the right person for this question.

Professor Yang: May I add on that? Again, I am also not a lawyer, so I may not be fully qualified to answer, but, again, it depends on what the exposure is that Credit Suisse has on GFG. If there is a traditional reverse factoring arrangement, it is GFG’s accounts payable that, basically, Credit Suisse bought from GFG’s suppliers. In this case, Credit Suisse will be an unsecured creditor of GFG, so, yes, it should go after it on different types of assets. Again, I do not know the exact exposure Credit Suisse has on GFG.

Cynthia O’Murchu: It was around $1.2 billion.

Professor Yang: Not the amount of exposure, but are they future receivables, prospective receivables or reverse factoring?

Q506 **Charlotte Nichols:** In an earlier evidence session, Anton Krull, the chief finance officer for Liberty Steel UK, said that he had no input into funding or financing questions regarding Liberty Steel. For a company of Liberty Steel’s size, could you expect information about the finances of Liberty Steel UK to be shared with the company’s chief financial officer? I am going to point that question to Mr Siddiqui, please.

Professor Siddiqui: If you look at the role description of CFO—of any CFO, for that matter—that would of course be about financing decisions made within the company. Given the scale of these investments, of course you would expect the CFO to understand and also to make decisions on that, so it is highly unusual.

Charlotte Nichols: That was my assessment of the situation also, but I thought I would check with an expert. Thank you very much for that.

Q507 **Chair:** Professor Siddiqui, you just spoke there about CFOs that matter.

There is a point here that I have never really fully understood, which is some of the titles that are being dished out to various people, especially in recent months. We have a GFG Alliance management board with independent directors, but, of course, they are not directors of a legal entity. We had evidence the other week that it has met a couple of times and it normally meets for about half an hour, during which Mr Gupta will give an update to this board of advisers. That is about it.

We then heard this evidence from the CFO, Mr Krull, the other week, who said he has a particular remit to put together business plans for individual sites and entities, but he does not know where the money is coming from. He does not have any insight into the central treasury function at GFG Alliance. We then have the restructuring and transformation team. I am not really sure where the people running that sit, who they are accountable to or what formal status they have, beyond being advisers to Mr Gupta, who I think still ultimately has control of all these entities. What are your reflections? Do you share that confusion, or am I just misunderstanding it here?

Professor Siddiqui: I have two impressions of this. In one sense, it is very confusing. In one sense, it is very simple. If you look into that, apparently it looks very confusing. I do not think this advisory committee is a formal committee at all. I do not think it has any formal remit in terms of that. It may just be an informal committee of friends. Basically, what we are talking about is a number of companies having perhaps one director and then it goes down to CFOs and so on.

Normally, you would expect the CFO to be an important part of the management, but here we are failing to see the management. It seems to be down to one person and there is this advisory board that, as I said, meets twice a year for half an hour or something. It is just perhaps a ritualistic approach of that. My assessment would be it is down to one person here to make all the decisions, and the CFO might be just carrying out the role of an operating officer or something like that. I do not think it is a typical role of a CFO.

Q508 **Chair:** Professor Yang, in the written submission that GFG Alliance provided this morning, it said that this approach to corporate governance is perfectly normal in a family-owned set of businesses. Would you agree with that?

Professor Yang: I am not a family business expert, but I would agree with Javed. Specifically on supply chain finance, if a company has set up a supply chain finance programme, then it is either the CFO or the treasury who will have the final sign-off normally. I do not know any companies that have a CFO, but the supply chain finance programme goes through without the CFO.

Q509 **Chair:** Professor Siddiqui, what is your response to the point that this is a perfectly normal structure for family-owned businesses?

Professor Siddiqui: For family businesses, there are examples of businesses that are run like this. If you look at the scale of this company, it is massive. This entity is massive now, so I would not say this is quite normal if you consider the scale. If it is a small shop run by a family, that is absolutely fine, but, if you are talking about businesses that are earning £2.5 billion in terms of turnover, it is not. It is highly unusual.

Q510 **Chair:** Cynthia, my last question for you is on Wyelands Bank. I put it to Mr Rose the other week that, if you read the chronology, it looks as if GFG Alliance bought Wyelands Bank in 2016 when it started buying distressed assets in the UK. There was clearly this relationship where it was seen as the private bank for GFG Alliance. As soon as the new leadership came in and made this assessment of connected parties and started to restrict the activities or the lending that it was putting forward to GFG companies, Mr Gupta and GFG have walked away from it. Has there been any evidence or suggestion that Sanjeev Gupta has tried to set up a private bank in the past, before Wyelands Bank, or that, because he was not able to access traditional sources of financing, he was trying to look for other ways of doing this?

Cynthia O'Murchu: Yes. He has, I believe, bought another bank. I have to refresh my mind as to whether that went through or where that ended up. I apologise; it is not fresh in my mind, but he certainly did try to set up a bank in Panama at one point several years ago. Within this banking or lending relationship, it is important to note that it really does seem like, at the time when GFG Alliance companies, or Liberty Commodities in particular, had difficulties with other banks, in 2016, 2017 and 2018, its relationship with Greensill became much more prominent and symbiotic, as they would say. GFG came to rely a massive amount on Greensill.

It has been reported by, for example, Bloomberg before. We have also spoken to people who have said that a number of companies and banks, including Sberbank and Macquarie, as well as people within Credit Suisse, are very wary of doing business with Liberty because of questionable paperwork and so forth. I know that GFG has denied any wrongdoing, but it is quite telling that a number of banks cut their credit lines, at which point it moved on to Greensill in a much more concentrated fashion.

Q511 **Chair:** Professor Siddiqui, this is my last question to you. Thinking from the Secretary of State's perspective, who is coming to our next session in this inquiry, Liberty Steel is in the process of trying to refinance its business and to secure a number of the assets that it owns across the UK, but there is still a demand for quite a lot of capital investment to bring those assets up to full capacity.

In the written submission we have received this morning, Mr Gupta suggested that the Government set up an industrial bank to provide him with that funding. Either that happens and the refinancing occurs and these assets can continue, or it does not happen and then the Secretary of State is suddenly being asked to think about what role the state plays to protect jobs or certain assets in certain parts of the country. Given all this complexity, do you have any thoughts you would like to share with the Committee about what the Secretary of State could or should do in those circumstances?

Professor Siddiqui: If you think about it, there are, again, two aspects. One is that this is a company in trouble, but you can put it down to its own problems, in a sense. It was perhaps intentional that the governance structure was like that. It was designed for that. If you are now expecting the Government to bail you out, that would be an unreasonable expectation from that point of view. Then, of course, there is public interests in terms of job cuts and all that, so that is a political decision. If you ask me as an independent audit expert or accountant, perhaps I would say that there is no reason I can see that the Government would bail this out.

Q512 **Chair:** That is all our formal questions for the session. If there is anything further that any witnesses would like to put on the record, now is your chance to do so.

Cynthia O'Murchu: I wanted, again, to go back to the point that some of the core businesses that received future receivables lines had only, until recently, Sanjeev Gupta as a sole director, with hundreds of millions of turnover. It seems very unusual.

Chair: Thank you for that. I will now call this session to an end. Thank you for your time. Thank you to Clerks and colleagues, as always.