HOUSE OF COMMONS

Treasury Committee

Oral evidence: Appointment of Angela Knight as Chair of the Office for Tax Simplification, HC 734

Tuesday 12 January 2016

Ordered by the House of Commons to be published on 12 January 2016

Watch the meeting

Members present: Andrew Tyrie (Chair); Mr Steve Baker, Mark Garnier, Helen Goodman, Stephen Hammond, John Mann, Chris Philp, Mr Jacob Rees-Mogg, Rachel Reeves, Wes Streeting

Questions 1-125

Examination of Witnesses

Witness: **Angela Knight CBE**, Chair, Office of Tax Simplification, gave evidence.

Q1 **Chair:** Thank you very much for coming in to see us this morning, Angela, if I can call you Angela. I suppose I should say Ms or Mrs Knight.

Angela Knight: Angela will do nicely.

Chair: We have known each other a long time. Can I begin by asking you a very straightforward question about your knowledge of the subject that you are now going to get deeply involved in? What responsibility for taxation did you have when you were Economic Secretary?

Angela Knight: That was not the main tax ministry, as you know, but what I did as Economic Secretary concerned some of the taxation issues specifically centring on stamp duty or stamp duty reserve tax, for share-trading, not for housing. I took the loan relationships legislation through. I held the Treasury brief on business rates and, indeed, on small businesses as well. That was split with other Departments, and taxation was always very much an issue. OEICs was another one, the open-ended investment companies. Again, I took the regulations through and there were tax treatments relating to that. I think the last one was gilt strips, but there may have been other bits and pieces.

Q2 **Chair:** It is very specialist stuff, is it not? Frankly, it is gilt strips, OEICs and a few other odds and ends, plus stamp.

Angela Knight: That is correct, but then, at the same time, having spent most of my working life with companies, inside small businesses, running small businesses, there is the small business perspective of taxation. Predominantly, from the small business perspective, as you know, Chairman, they are the tax collectors of the country and they find the doing of it quite burdensome. From the corporate perspective, I have a different sort of knowledge, which is far more general and perhaps far more important for the OTS role, although it also helps that I have knowledge of Treasury processes and how Treasury tax thinking works.

Q3 **Chair:** Have you followed the debate about ensuring the independence of some of these appointees to quangos is entrenched?

Angela Knight: I cannot say that I have particularly, so perhaps you could explain what you mean.

Q4 **Chair:** If you look at the OBR, the chairman of the OBR is appointed jointly by this Committee and the Treasury. How can we be confident that you are independent when you can be appointed and effectively dismissed by the Chancellor?

Angela Knight: It is fair that you should ask that, because I would not have objected to an alternative form of appointment. As far as independence—

Q5 **Chair:** Can you say what you mean by that? I am sorry to interrupt.

Angela Knight: Yes, absolutely. If the appointment process had been like the OBR's, I would have been fine with that.

Q6 **Chair:** Do you think it might add to the robustness and credibility of the OTS's work?

Angela Knight: I do not know, really. Having only spent five days in this particular role, it is rather difficult for me to say that.

Q7 **Chair:** You will have to make recommendations, which the Government may not agree with or approve of.

Angela Knight: That may be the case regardless. Nobody I have spoken to has said anything to me other than that the OTS has always operated in an independent manner, for which one has to give credit to both the previous chairman and the secretariat. In some respects, independence is about how you operate. It is about openness, transparency, consulting properly, being very clear what your recommendations are, publishing and so forth. I hope that will be part of the work that I will be building on in this role.

Q8 **Chair:** How would you respond to the criticism that people might feel the OTS is something of a PR operation; that you have some experience in being the spokesman for trade bodies, which is probably a large part of why you have been picked for this role; but that, for this to be a success, we need somebody who is highly technically competent in tax, who can talk on the basis of a good deal of personal expertise from working professionally for many years in the tax field; and that, therefore, you are going to find this job particularly difficult with such a narrow base of professional experience in the Treasury on tax?

Angela Knight: I would say that, as far as high competency in tax is concerned, that is precisely what the director and the team are for. I am sure that you have had some discussion and interaction with them in the past and will know that they are a wholly credible team and that, in addition, there is some use of outside expertise. The expertise has to be there. As far as the chairman's role is concerned, certainly as the specification was set out, it said some knowledge of tax is required. That is an absolutely fair point. But they were also seeking knowledge of roles such as chief executive roles and abilities such as strategy and bringing different parties, groups and organisations together where there are different views.

There is another point that I would like to make, if I may. Any organisation is judged by its outcomes: what successes does it have? That is where some of the focus needs to lie: not just making recommendations, but getting recommendations adopted and looking to see whether the way those recommendations are implemented falls in line with a simplified process so you get a net beneficial outcome.

Q9 **Chair:** The Committee has come forward with six core elements against which improvements to the tax system may be judged and has had those on the stocks for many years. Have you taken a look at those? Do you agree with them?

Angela Knight: I agree with what I have seen.

Q10 **Chair:** Do you think they could help form the basis for measuring progress?

Angela Knight: Simplification and efficiency are two things that you can look to the OTS for, but the OTS is not an organisation that decides on tax. That is the ministerial responsibility, as moulded and shaped by Parliament.

Q11 **Chair:** If we come to the OTS for specific guidance on a particular tax proposal, are you going to be able to give it to us?

Angela Knight: Do you know, I am not sure of the answer. The reason I am not sure of the answer is because the exact framework and remit of what the OTS can and cannot do still has to be discussed; Again through Parliament, not with myself.

Q12 **Chair:** You will have some influence on what the Government say with respect to that, which is why I am asking the question.

Angela Knight: I would have thought that you would have more influence, because you can place the amendments.

Chair: We might, together with you.

Angela Knight: I cannot make the amendments.

Chair: You can say what you would like.

Angela Knight: I would have thought that, if the OTS's role is going to be absolutely up there on simplification, yes, you have to pay attention to the body of tax that is there, but you also have to somehow have at least some simplification principles that are considered further up the chain. As we are looking at OTS mark 2, I would say let us get that off the ground and then see how it can be developed in a way that really brings some proper positive benefits and measurable outcomes.

Q13 **Chair:** Just on that point, some scepticism was expressed by members of this Committee in the course of the last parliament about whether the OTS was worth the candle and whether it should continue. After all, it was only on a five-year term, with a view that it should be disbanded at the end of that Parliament. The view of the Committee was, if we are going to keep it, we had better put it on a statutory basis and give it a reasonable chance of working. Having a form of accountability such as I have described, this Committee would feel, will be part of that essential remit. I would be grateful if you would consider that point in the light of your discussions on the memorandum of understanding for whatever you are going to do and the way you operate.

Angela Knight: I will indeed. Perhaps one of the things I would also like to do is have a good working relationship with this Committee, because I hope that you will be able to take a role in what it is that the OTS does—the reviews, its proposals and so forth. That can be only very helpful.

Chair: That is a helpful exchange.

Q14 **Rachel Reeves:** Building on the points that the Chairman has just made, the Government plan to legislate to put the OTS on a statutory footing. What do you see as the advantages and disadvantages of doing that?

Angela Knight: If you have it on a statutory footing, it says, "Look, here is something that is worthwhile and it is there." It was on a temporary basis; It has had its trial five-year period, so now saying, "We are going to have this and it is going to be there on a statutory footing" implies, first of all, that it is there for the long term. Secondly, it sets out to a greater extent what its roles and responsibilities are. Thirdly, it gives the OTS the opportunity to look forward, and not just deal with reviews and proposals that are put there by Government, but really start to think of other things and consider other proposals that are put to it by the various stakeholders.

Q15 **John Mann:** What is in your work programme?

Angela Knight: The work programme that is there at the moment is the national insurance and income tax review, and it is then the small business review—or micro business, I should have said.

Q16 **John Mann:** We know that. What else is in your work programme?

Angela Knight: Before these reviews are completed, I want to put a proper consultation in place with people like you, because I want to know what the views are. A lot of the small business groups have already written to me and said, "Can we come and talk to you?" What I have not come to this Committee with is a baked plan. I have come to this Committee before the work of putting the next work programme in place is done. There are some things, though, that are worth continuing to pursue, such as the complexity index. I am sure that there will be more work that flows from the current reviews that are underway, but I want to do the consultation and use people like you and others to get a view.

Q17 **John Mann:** What do you think should be in your work programme?

Angela Knight: The major tax collectors of the country are small businesses, so, for them, they are doing the collecting. They are the ones filling in the forms. They are the ones doing the remitting. They are the ones for whom making something as simple and easy as possible is surely a very important area. I suppose I would include in that the self-employed as well.

Q18 **John Mann:** What about HMRC's digital programme? Is that in your immediate work programme?

Angela Knight: Digital has to be a common theme. If everything is moving across to a more digital environment, which it is, then for the OTS to have digital as a stream that runs across everything they look at is an important part of the work.

Q19 **John Mann:** What about tax evasion and tax avoidance? How does that fit into your work?

Angela Knight: As far as I am aware, it does not.

Q20 **John Mann:** You are the chairman. Why does it not?

Angela Knight: The remit I have been given for the OTS is about simplicity and efficiency. The whole area of tax avoidance and tax evasion I do not at this stage understand to be part of the remit. There may be an aspect of importance, though, because, if something is simple to understand and simple to apply, then the ability to get round it is much less. That could be an area, but, as I understand it at the moment, simplicity and efficiency are the two areas that the OTS has been asked to look at. If we find other things in the course of that work, as has been the case in the past, clearly they would be flagged.

Q21 **John Mann:** What experience do you have of negotiating with HMRC?

Angela Knight: I have never negotiated with HMRC.

John Mann: On anything?

Angela Knight: Not that I can remember. Maybe there was a time when I was in Parliament, when I was in the Treasury, but I cannot remember one, sorry.

Q22 **Chris Philp:** John has covered most of the questions I had in mind, but you mentioned, Angela, that small businesses are particularly important and keeping things easy and simple for them is a priority of yours. In that context, can you comment on the recent proposals to introduce quarterly tax returns? Is that something you have had a chance to think about? If so, what is your view?

Angela Knight: Yes, I have had a chance to think about it. I have also seen some correspondence that says it is not meant to be quarterly tax returns. I can understand very well a proposition that says that, if you can do things online and if you can update on a regular basis, then at the end of the day it can be simpler for you as a businesses than having to sit down and do a full tax return. Having read the various commentaries in the press, it looks like what I have said and what people are thinking are some significant way apart.

That is a current issue and I understand that it is being dealt with. I understand also that the OTS is now involved in some form of a group on that. But what this issue says to me very strongly is that there is a real need to work some of these propositions through from how it feels and what will happen from the perspective of the business first, and to get that in place and get that discussed, in advance of people thinking they are going to be asked to do something much more than they had ever expected.

Q23 **Chris Philp:** Would you not agree that, in order to enter the information on to the electronic system, you have to compile and collate it first? Some people may currently do that once a year. To do it four times a year would be an onerous burden.

Angela Knight: If you are VAT registered, you are in effect doing that for VAT right there.

Chris Philp: Only for sellers.

Angela Knight: That is right, and that is quite a chunk of business. They are also approximate numbers and they get sorted out at some point. A lot of that information is quite similar to what is required when you are doing any form of tax return or entry of numbers.

The issue is probably elsewhere, with those companies that are not VAT registered. I suspect they do operate in the way that you implied, which is that they get everything together at the end of the year and do it once. It is now for others, seeing where this proposal has got to, to go away and find simple methods and ways by which all the small businesses that are moving to a different type of requirement can handle that and get to it as simply as possible.

Q24 **Chris Philp:** John asked about tax avoidance and evasion. I wondered if you had a view on whether complexity in the tax system, so a lack of simplification, particularly with regard to corporation tax, has assisted some unscrupulous multinationals in avoiding their fair share of tax, and whether you think simplification of that particular area of tax may assist in increasing the revenue yield.

Angela Knight: The answer is that I really do not know, but, like you, I am quite appalled at these stories where some multinationals do not seem to have paid what I would consider to be their fair tax. I join with others in having a real concern in that area. As to whether it is a complexity issue or not—I understand that corporation tax is extremely complex—I simply do not know. It looks to be as much an international issue and, at this stage, I cannot really form a view as to whether the OTS could possibly have any sort of role to play.

Q25 **Chris Philp:** Will you be looking at that?

Angela Knight: I will indeed, and will come back to this Committee in due course, if I may, when I can show you at least where we are getting to on that issue.

Mr Baker: I am very grateful for the last answer you have just given, because, when you answered Mr Mann on this subject of simplicity versus avoidance and evasion, it struck me that it would be quite extraordinary if the Office of Tax Simplification did not make it a priority. I am very grateful for the answer you have given to Mr Philip and I would like to add my voice to that call on such a high-profile issue.

Angela Knight: That is fair enough.

Q26 **Mr Baker:** In terms of the way the OTS works, it uses full-time civil servants and then private sector secondees. Do you think that is the right model and how do you think it has been working?

Angela Knight: It is an interesting mixture to have, because we have all seen situations arise where a model is not mixed and the outcome has, for various reasons, simply not worked. Either because the private sector has not understood the limitations and drivers of Parliament, HMRC and so on; or, in the reverse, something that has been generated perfectly within the normal channels, when you put it out in practice, can be a complete disaster area. If you can mix the two together, then that is a good thing. Do we have the right mix at the moment? It is an interesting mix, but seems to me that one of the issues for the OTS is that there are simply not enough people there to do the work required, and increasing the mixture of resources is a good thing.

Q27 **Mr Baker:** I want to pick up two things: the mix of people and the number. First of all, on the mix, would you share my view that it is a very good idea to have very high-quality private sector secondees in the OTS, in order to shift the culture and create a cultural tension between what you are working on and recommending and the way that the Treasury and HMRC do things? Surely there is a very different perspective on tax between the official world and the private sector world.

Angela Knight: Yes, you have a valid point there. They are certainly very different cultures; I entirely agree with you on that. Cultural tensions can sometimes turn out to be the wrong thing to have. You need different cultures that can work together, not ones that bounce off each other. On the quality of the people who are being seconded in or being used at the moment, I have no reason to doubt that they are of the highest quality. Can we do more? Can we work differently? Leave that with me and I will report back to the Committee.

Q28 **Mr Baker:** On the number of people, I know the interim framework document has suggested that the secretariat go up from six to 10. Do you think that is enough people?

Angela Knight: Let us start with that and see how it goes.

Q29 **Mr Baker:** Do you think there is a danger that it could become a job creation scheme, when the fundamental problem is that tax policy is made too complex in order to meet policy objectives and, if HMRC and the Treasury did their job differently, you could have a much smaller OTS or abolish it?

Angela Knight: Good point. A fundamental problem is that simplicity is not necessarily the main driver at the start. If I come back to your earlier point, you can make something really simple and then not have enough anti-avoidance measures in, or find that suddenly the tax has gone off elsewhere. There is that balance, is there not? I do not know where the balance lies. It will be different in different cases, but there is definitely a balance. When you have the Treasury or HMRC creating a new tax or making changes to an existing tax, simplicity does not sit at the heart of it. If you have the ministerial team or the departmental team—let us call it that for simplicity—you can imagine that ends up very much side-lined and squeezed, and becomes something that is given a nod to but does not have any real bite to it. I can argue strongly to have simplification issues dealt with by a separate group. If you come to the end of the day, could you say, "Right, we have done that. Simplicity is there. You do not need the OTS"? I am sure you are right, but whether it is going to be in my lifetime or yours, I really do not know. We have a very complex system.

Q30 **Mr Baker:** In terms of that complexity, reading your answers, you have the intention of doing some more high-level work through the OTS.

Angela Knight: Yes.

Q31 **Mr Baker:** Did you look at the 2020 Tax Commission's work? This was the Institute of Directors and the TaxPayers' Alliance coming together to do something that might be described as courageous in some circles. Did you look at that?

Angela Knight: Do you know, they were the first people off the chocks when my appointment was announced. Before Christmas, not only did I get the summary; I got this great, big—

Mr Baker: Magisterial.

Angela Knight: Absolutely. It went wallop through the letterbox on to the floor. I have had a look at the summary. I have not read the other 400 or whatever pages it is. They have invited me for a discussion. I will go for the discussion and then take the next few days just to think about it.

Mr Baker: I am reassured. Thanks very much.

Q32 **Helen Goodman:** Mrs Knight, you were the chief executive of the BBA from 2007 to 2012 and, during that time, Libor, for which the BBA had oversight, was manipulated. Then that was discovered and new arrangements were put in place. In 2008, according to the public documents, you made the suggestion that responsibility for oversight should be passed to the Bank of England. Why did you make that suggestion at that point?

Angela Knight: In that time, as you know, the wholesale market had come to a halt. There were questions about Libor. The area was a troublesome and problematic area. At the BBA, we put together a consultation that covered those parts of the process for which we had any sort of input and any sort of responsibility. There was a group of things, all about technicalities. It was one chunk: technicalities of the definition of the rate. There were then some issues about the time that the rate should set and participants. That was another part of it.

The third part of what we were talking about related to how something called the foreign exchange and money markets committee should operate. The FX and MM committee was something that had been set up somewhere in the 1980s, when the Libor process was originally proposed by the Bank of England, I think it was, and put together. It had various practitioners around the table. The view I held was that that committee should have independent people from outside, and my thinking at that time was that we should offer observer status to central banks and to regulators. The reason for that was because this was the only thing available. The FX and MM committee was the only thing around. That was one aspect.

Another aspect, in any event, was that, in my view, for a process such as Libor, although a whole chunk of it fell within the regulatory environment—that is, the activities of the banks—rather than a trade association being involved, it should be with a third party. The money market, as you know, was carved out from FSMA—the Financial Services and Markets Act—to be a Bank of England responsibility, and the rest was the FSA's responsibility. All discussions that one had, therefore, on the money market—and the money market was very problematic at that time—were with the Bank of England, and so it struck me as an appropriate way forward.

Q33 **Helen Goodman:** You described the situation to me just now as "troublesome and problematic".

Angela Knight: Yes, that is right.

Q34 **Helen Goodman:** Were you aware at that point that Libor was being manipulated?

Angela Knight: No, not at all. There was a lot of work done to see what could be seen. All the Libor contributions made by every bank to every one of the Libor rates were put into the public domain, whether they had been used by Reuters to construct the rate or whether they had been discarded. All that information was in the public domain, and I personally thought it was absolutely right that this was happening with what was a very widely used rate; by "this", I mean that degree of transparency. There were a lot of organisations looking to see if they could see whether there was any manipulation.

I cannot remember which—and I apologise, because I did not look this up before I came here—but one of our major international institutions put out a document to say that they had gone through some form of analysis and they could see no evidence of manipulation, which in some respects is not necessarily surprising, because we had a market that was all over the place.

Q35 **Helen Goodman:** Nonetheless, you undertook a review. You did not uncover the manipulation. One would not say this was a very happy episode for the markets, for the BBA or for you. What have you learnt from that episode?

Angela Knight: Can I agree with you? It was a very difficult time for everybody and, indeed, for the people of the UK and other countries as well. I would just say that the BBA did not have investigative powers, so there was no way that the BBA could go into a particular organisation and say, "Can we have a look at what you have done?" We did, though, make sure that everything we did, we did in lockstep with the regulators. We did not in any way try to do something to one side of our authorities, because, after all, our authorities had the powers that we did not.

What did I learn from that time? If I was there and we had that situation again, I would be much stronger about trying to get the authorities to take control of the issues, to start the investigations, then to take over the entity or work with the BBA and come in with some form of governance—something like that. I would have been much stronger, another time. At the time, what I did seemed right in the face of a hurricane, and you do only what you can see your way forward to do.

Q36 **Helen Goodman:** The manipulation of Libor cost many people a lot of money—millions, billions, significant sums of money. The public are disappointed because they feel that, okay, one person has gone to prison, but many people were involved, and it is difficult to get people to take responsibility for what happened. Do you not think that there might, in the public mind, be a credibility issue for you if you, who were running the organisation that had oversight of the formation of Libor, are now, five years down the track, seen to be given a high-profile, important, prestigious, well remunerated post?

Angela Knight: I would hope not is the answer. The issue, as I see it, is that I went to the BBA to take over an organisation, invited to do so particularly because of some of the retail banking issues, and found myself in charge, at the time, of the biggest banking crisis for more than a century. I did what I could in the face of a hurricane. I do not know whether I did a good job, a bad job, an indifferent job; that is in the eyes of others. But I certainly did what I could. I did what I could in that area. I provided any information that anybody wanted to authorities and so on.

If somebody who does a difficult job, finds themselves in a very tricky position and does what they can is thereafter told, “You cannot do anything else”, you will never get anybody to do a difficult job again. I tried my best. I was out there. I did what I could in explanation. I am so sorry that I ended up at the BBA in the banking crisis. I am so sorry that it chose me to be its target. I am so sorry that I took a trade association into a different area. I am so sorry that I never persuaded the authorities to take over Libor early. I am so sorry that the banks brought about the financial disaster they did. But I cannot do anything about it.

Q37 **Helen Goodman:** Are you sorry for having defended the banks during that period as energetically as you did, and are you sorry for having endorsed Libor when it was in this mess in 2008? Are you sorry for those things as well?

Angela Knight: Of course I am sorry. On your endorsement point, I would say that, yes, we did endorse it because, as far as we were aware from that which we could see and do and that which we could undertake, it looked like it was okay. Third-party entities who had been able to do a different sort of looking at the rate had also said the same thing publically, and we had spoken to the regulators. We had not hidden anything. We had asked others to do that work, which we could not go near. Yes, I do wish it had never happened, and I am sorry that I was not able to do more.

Q38 **Helen Goodman:** Mrs Knight, you said in answer to one of my colleagues’ questions that the new role, this tax simplification role, should be judged on outcomes and successes. If we took that criterion for what had happened at the BBA, we would not have a very happy answer, would we?

Angela Knight: No. If you know that we are heading into a real hurricane with tax simplification, could you perhaps let me know now? If we are going to have the biggest tax problem for a century, I would like to know it. The reality is that you can and absolutely should judge on outcomes, but sometimes the situation people find themselves in is so extraordinary that it is in a different place.

Q39 **Helen Goodman:** Things are not moving quite so quickly in the area of tax, but there are very significant pressures. Shortly before Christmas, we learned that a very large number of banks, having made hundreds of millions of pounds of profit, had paid zero corporation tax—not small amounts, not contestable amounts, zero. I want to ask you, in the light of what you have learned and the fact that you must have been thinking about this role, whether you think that tax simplification has any contribution to make in getting the banks to pay their fair share.

Angela Knight: Maybe it does. The simpler one can make a system, then the clearer it is what the participants, in this instance the banks, have to do and how they have to pay. The simpler something is, the less easy it is to get round and to find other options.

Q40 **Helen Goodman:** What sort of thing do you think in this particular area we should be thinking about? Should we be thinking about turnover tax, for example, instead of tax on profits? Would that be a simpler approach?

Angela Knight: It is four years since I resigned from the BBA and I do not follow banking issues. I read the newspapers; that is all. I do not know the technicalities, sorry. What I would say is that, as I read it, you have made some changes anyway, in order to try to obtain more tax from the banks. That is what I have read in the newspapers. Perhaps you could advise me further.

Q41 **Chair:** Can we go back to some of the answers you have been giving to Helen Goodman on one or two points? You have described your role at that time in a regretful tone, saying that you wish you had been much stronger in getting the regulators to do the job. You give the impression that you tried to sort it out and that they were blocking it, but is it not the case that the Bank of England were saying exactly the opposite to you? They were saying—and I have it in front of me—that the initial proposals you came forward with for the conduct of the review you were proposing at the BBA were wholly inadequate.

Angela Knight: At the time, they did not say that to us, and I have only ever seen that in a paper's report of, I think, this Committee. The review we did was in three parts.

Q42 **Chair:** Are you saying that they did not tell you it was wholly inadequate?

Angela Knight: That is correct.

Chair: They just kept quiet.

Angela Knight: No, not entirely. Perhaps I can explain and then that might help. The review we did was in three parts. The first part was what I would call the regular review, where you look to see the activity of each of the contributing banks in the particular currencies in the market. It is a straightforward calculation to see whether that bank is doing sufficient business for it to continue to be a contributor. That was one part. That was published, to my recollection, three or four days before the other two parts.

Chair: I was just trying to get to the bottom of who was nudging whom.

Angela Knight: That is right; I am just coming to it. As to the other two parts, one was a chunk of technicalities, some of which the Federal Reserve wanted changed; then there was another chunk, which was the governance piece. On the technicalities and the governance piece, before we published the consultation, there was a lot of iterative work going on between the BBA, the FSA and the Bank of England. Of course there was. On the technicality piece, some of the things could be done and some of the things could not. On the governance piece, there was an aspect of it that we wanted, which was bringing in the authorities at that point, and which we were told we were not to put in, so I do not know the answer

Q43 **Chair:** You have given us the impression that, when the regulator came to you and you said to them, "Will you take over responsibility?", this was something they were resistant to. They have given us in evidence exactly the opposite view, and I am trying to clarify which one is right.

Angela Knight: That is a fair point. Our suggestion was that the regulators, specifically the FSA and, at this stage, the Bank of England, should come and join, with observer status, the FX and MM committee.

Chair: Yes, you mentioned that earlier.

Angela Knight: That we saw as a stage one: if we could get them involved there, then at least it was a step taken towards the point at which, as was the BBA's intention, as I had said publically, Libor would be taken over by them.

Q44 **Chair:** You have told us that you wish you had been much stronger in getting the regulators to do the job, but they have come to us and told us exactly the opposite: that they took a keen interest in the review, described it as wholly inadequate and made this clear to you. The former Governor of the Bank of England has said in evidence to us that you had to be nudged to get this into the right place. Is that incorrect?

Angela Knight: I am afraid I do not recognise the language. I am sorry.

Chair: This has all been published and it is on the record.

Angela Knight: That is not what I am saying. What I mean is that the language of us being nudged to get something in the right place I do not particularly recognise.

Q45 **Chair:** When they say to us that something requires nudging—

Angela Knight: Could I—

Q46 **Chair:** By all means, in just a second. I am sure you understand, as a long observer of the way the Bank speaks, that what they really mean is, in their view, the BBA was stubborn, did not get the message and had to be kicked, because they never use words like that over at the Bank of England.

Angela Knight: That is right. I was just going to come back to us as to where the nudge probably took place, and here I would agree with the word "nudge" is the technical piece. There were some things that the Federal Reserve wanted. Let me give you a few; let me see if I can remember them, actually. One was more American banks to participate in the contributing process. A second was that they wanted the dollar rate set later in the day.

Chair: I can actually read this out to you, but I do not think we need this detail.

Angela Knight: The third was transparency. In those, we did have an interaction with the Bank of England, because we could not do all of those three things. The issue we were far more keen on was the governance piece, which was getting the Bank of England and the regulators to participate, with at least observer status, on the FX and MM committee, because we felt governance was the vitally important thing.

Q47 **Chair:** When the Bank of England in evidence to us gave us the unmistakable impression that it was difficult to get the BBA to do this as a proper job, that you had to be nudged to do so and that the initial work was wholly inadequate, did they mislead this Committee?

Angela Knight: I have no idea. If they were looking at the—

Q48 **Chair:** That is fine. You have made the qualifying point, and I understand, but you do not know whether they did. You were there, were you not, at the BBA between 2007 and 2012, right through the period when the Libor rigging was at its worst, when there was a huge amount of rigging going on? Is that not correct?

Angela Knight: We are now seeing that coming out into the public domain.

Q49 **Chair:** Does it not give you cause now for particular concern? It was not just initially when you first arrived. You said you arrived in the teeth of a storm, but then there were five years, during which the crisis was deepening, in which this particular issue was not addressed.

Angela Knight: Does it concern me? Of course it concerns me. As I said to the earlier question, we did not have investigative powers. If there were issues, these needed to be investigated by the authorities, and we provided all and any information we had to a variety of authorities.

Q50 **Mark Garnier:** Angela, I will carry on in the same vein, if I may. In response to Helen Goodman, you were talking about how you were trying to get the Libor fixing process handed over to the Bank of England, which seemed like a pretty sensible thing to do at the time. There was another example of your probably quite sensible thinking within the British Bankers' Association, which regarded the PPI approach. It was the retail committee of the BBA that decided the review by the regulator of the PPI scandal should be subject to a judicial review. You quite strongly disagreed with that.

These two examples are perfectly reasonable examples. In the case of the PPI judicial review, you said it would have been an extraordinary bad idea because it would prejudice the view that people took on the BBA. They were probably both quite good ideas. The problem is that you failed to get your views through. You were the chief executive of the BBA at the time. As such, surely it was your job to make sure the BBA was going in the right direction. You failed to get them to not do a judicial review on the PPI outcome, and you failed to get them to hand over the Libor setting to the Bank of England. How can we be sure that, when you come to the Office of Tax Simplification, you are going to have better outcomes than you did when you were at the BBA?

Angela Knight: Fair point. First of all, if you go back to the Libor one, I would argue that it was a failure of others not prepared to step up to the plate.

Mark Garnier: Nonetheless, you said that you—

Angela Knight: I wish I had been stronger. I wish I had been stronger about what I thought needed to be done. Yes, I do. We were also in a huge crisis at the time. Because it seemed from my perspective that others were not particularly interested, I could only draw the conclusion that we were maybe taking it to a level to which others did not consider it should be taken.

If you move to the PPI question, you are right, it was a decision of retail, but it was also confirmed by the board of the BBA. It went round as an issue for some time before conclusion was reached. I felt it was the wrong conclusion; I was quite open on that.

Q51 **Mark Garnier:** You were certainly open with us under parliamentary questioning, but were you open about that being the wrong decision at the time?

Angela Knight: Yes, that is right. It was well known. I did not make any bones about the fact that, whatever may be the substance of the views of the banks, the reality was that taking a case was not the way forward. I also felt that, whatever may be the outcome of that case, even, in happenstance, had the case been won, they would lose in the public domain and you as parliamentarians would take a view at that point. So, no, I did not agree with that.

It happened. It took place. I thought about it very seriously afterwards and decided at that point that I was going to leave the BBA. I actually stayed a bit longer, for a couple of other reasons, not least getting across the line the next major review of Libor by Oliver Wyman, which has provided all the substance to what has happened next in terms of the Wheatley Review and so forth.

You might say, "Should I have left over PPI?" You can argue that. At the time, one has to make decisions: "Who are you serving? What is going to be in the best interests?" From a personal perspective, walking out always means you are walking away from a problem. Is that right or wrong? I can sit here and I say, in retrospect, I might have made different decisions. You know yourself, I am sure, from other decisions that you and all of us have made, that you sometimes decide on what you see to be the best interests at the time, and later you might say, "Maybe I should have done things differently".

Q52 **Mark Garnier:** This is the perennial conundrum of leadership.

Angela Knight: It is.

Mark Garnier: At the end of the day, one would hope that the people who fail to get their way would not necessarily throw their toys out of the pram and walk out in a huff. Equally so, it is incredibly important that history has proved you right on both of these occasions, and yet your failure at the time was the fact that you did not manage to get your will heard. Can you see any future instances of that within the OTS, something which is slightly less contentious than the British Bankers' Association, I agree? Can you see any potential areas where you may not be able to get your view through, although at the time you think it is right, and who knows what history will prove in the long run? Can you see any areas of worry from that leadership point of view?

Angela Knight: I cannot second guess the future now, against a programme that we have not set and a consultation that has not taken place. I cannot do that. I would also say that, on the other side, I had quite a number of wins as well at the BBA. We have concentrated on the things that I did not win, but there were some things that I did win.

Q53 **Mark Garnier:** Helen Goodman made a point about the banks having used a perfectly legitimate tax consideration, which is carrying forward losses in order to offset against profits and thereby not have a corporation tax liability at the end of 2015. She was talking about something that people feel very angry about, and you quite understand that, but, nonetheless, this is a perfectly reasonable application of tax policy. Helen has asked you questions about this. What struck me at the time was that this enters into that incredibly difficult arena: where do you draw the line between what is tax simplification and what is tax policy, and how do you define that? My view—and I do not know if you agree, but I would be interested to hear—is that the banks simply using tax policy or tax law is not relevant to tax simplification. Discuss.

Angela Knight: I would agree with that, because tax policy is for somebody else. It is for Ministers; it is elsewhere; it is you in Parliament. I understood the question from Helen Goodman to be one of: "Is it simple? Is it understandable? Is it clear?" There is something about that clarity and simplicity thing that potentially comes within the remit of the Office of Tax Simplification, but, as to whether you allow the carrying forward of losses, which is common across businesses, or restrict it in some way to certain sectors would be for you. The policy on exactly how you tax an industry and on what you allow or disallow is a policy issue. Can it be made as simple as possible? That lies in the simplicity, efficiency place.

Q54 **Mark Garnier:** Let me give you an example. I would be interested to know how you would necessarily handle this one. The Chancellor's budget reduced the bank levy and brought in an 8% surcharge on banks. The definition of a bank most sensible people would say is somebody who accepts deposits and has a banking licence. However, the definition being used for this is one that goes back to the Financial Services and Markets Act definition of banks, which includes corporate banks. Thereby, it is drawing in a number of corporate brokers, which is causing a certain amount of anguish among those brokers, who manifestly are not banks.

What would your advice to the Chancellor or the Treasury be on that particular occasion?

Angela Knight: I have seen that that takes place. Sorry, I have garbled my words. I have seen some of the commentary that has come out, again, into the public domain. Particularly some of the smaller entities, I believe, have raised a concern. I have to say, it is the decision of a Chancellor and of Parliament as to how and in what form you tax an entity. The OTS does not take part in the taxation.

Q55 **Mark Garnier:** So that is a policy and not a simplification.

Angela Knight: Absolutely, that is a policy.

Q56 **Mark Garnier:** That is a very helpful and clear answer. I have one last question, and this goes back to the Parliamentary Commission on Banking Standards. You said to the Chairman very specifically that you want to encourage a very good working relationship between yourself and this Committee. In fact, you have said this to a number of other members of this Committee. There have been two occasions when you have sat in front of us like this, one of which was the Treasury Committee, when you were at the British Bankers' Association. The second was at the Parliamentary Commission on Banking Standards, which was in either late 2012 or early 2013, the point being that you had left the BBA at the time. Clearly, the PCBS had been set up very specifically to look at the period when you were the chief executive of the BBA.

If you cast your mind back to it, it was not a happy event. You were very reluctant to come and give evidence to us. First of all, you refused. I think we threatened you with a subpoena. Nonetheless, you agreed to come. When you did come, you wanted to speak only to the silks that we had employed at the PCBS. You were a very reluctant witness and it was not a particularly happy event. It is absolutely crucial that we, on this Committee and in Parliament, can have absolute confidence that that type of thing will not happen again. Can you give us some reassurance that that was a one-off or that whatever happened then will not happen again?

Angela Knight: Yes, but I do not know the story that you tell, so I am sorry about that. As for coming to speak to the commission after I had left the BBA, I got a request one day. I did not know that you were going to make a request, and I did not know what it was about. I agreed to come. I found that it was about some information being put in by the BBA, which was fine. But, I am sorry, I do not recognise that. I beg your pardon, I do not recognise that.

Mark Garnier: Nonetheless, it was a pretty unhappy event.

Angela Knight: It was not the easiest of things, because you were asking me questions off somebody else's submission. Those are difficult things to do. However, we have all moved on from that type of environment. I said to the Chairman earlier that I would want to work with you, and closely with you, as this Committee has a huge part to play in the programme, the review and the output of the OTS. That is what I want to do. I want to work with you. Maybe you will form a tax sub-committee or something. Please will you do something like that, because, if we are going to get the right answers, it will be in that form, in that way?

Chair: The whole Committee is so interested in tax that I think the sub-committee will be us.

Q57 **Rachel Reeves:** I want to come back to an answer you gave to the Chairman. You said that the nudging from the Bank of England with regard to Libor was about technical issues, and you particularly mentioned the Federal Reserve's wish to have more US banks contribute to the Libor rate. Do you really think that was what the former Governor of the Bank of England was referring to when he said that the BBA had to be nudged into the right direction, rather than governance or manipulation issues? Do you really think that is what he was referring to?

Angela Knight: I am sorry, I have no idea what he was referring to. I was not here, I do not know and they have not spoken to me. I was saying in my response to the Chairman that there were three parts to the review. The middle part, the technicalities, was certainly one where, late on, we received a call from the Bank of England. On the governance side, we had had a discussion going over some weeks, quite intensively, with the Bank of England, about them joining with observer status, and had been turned down. As to the nature of the discussion that they had with you, I am terribly sorry but I do not know.

Q58 **Rachel Reeves:** Do you not feel that the Bank of England had to do any nudging with relation to governance issues?

Angela Knight: I am afraid we saw it in the other direction. In fact, the refusal of the authorities in the end to come and join in at least some form of observer status we thought was a pity. The only message you could take from that was that we perhaps had these things higher up the agenda than others had.

Q59 **Chair:** When you say "the other direction", are you suggesting that the Bank of England was nudging you to investigate less?

Angela Knight: We did not have investigative powers at all, so we could not do the investigation.

Chair: You had an inquiry.

Angela Knight: We did a consultation, yes, but that consultation was endeavouring to get the views of as wide a number of participants as possible.

Q60 **Chair:** I just want to clarify what you mean by "other direction". What is this other direction?

Angela Knight: We wanted to bring the authorities in as observers, and we were not able to do that. In fact, in the end, the consultation was not specific—

Q61 **Chair:** Sorry, just to be clear, I am trying to do the translating. When you say you were not able to do that, what you mean is that the Bank of England prevented you from doing that.

Angela Knight: We were told no.

Q62 **Chair:** Okay, and that therefore prevented you from doing it. Is that correct?

Angela Knight: Yes, because you cannot bring somebody in if they refuse to do so.

Q63 **Chair:** I want to be clear on this. Your view, which we have not had in evidence before and we had not intended to go into this level of detail on at all, is quite astonishing. It is that the Bank of England was obstructive in trying to get to the bottom of the whole Libor issue.

Angela Knight: I would never call them obstructive.

Q64 **Chair:** They were nudging you in the other direction, and they said no to the specific proposal you made to look at it.

Angela Knight: First of all, I would not call the Bank of England obstructive. Those are not my words.

Q65 **Chair:** I am trying to clarify what words you would like to use to describe this nudging in the other direction.

Angela Knight: I just saw it as a refusal. I did not see it as anything else. They and the other authorities did not see that they could come, with at least observer status, which was the status that we asked for, to the FX and MM Committee. Our view was that that would have been helpful.

Q66 **Rachel Reeves:** Why do you think the Bank of England did not want to take part?

Angela Knight: I do not know.

Q67 **Rachel Reeves:** You must have asked them.

Angela Knight: Yes, of course, but you had some of the emails. After all, I had a couple of people ring me up to say that some emails had been put in the public domain about this at the time.

Q68 **Rachel Reeves:** You did ask the Bank of England why they did not want to participate in this way.

Angela Knight: As I understand it, the view was that that would bring them close to regulation of something that was not in a fully regulated place. The actions and activities of the banks in contributing the rate was, of course, regulated by the regulators, but then there was this indeterminate bit. At the BBA, we felt that if we had authorities—and you can frame them how you like—but authorities at least with observer status, it would be extraordinarily helpful in presenting good visibility that there was real engagement across the piece on what was a very important area.

Q69 **Rachel Reeves:** Perhaps they did not want to give legitimacy to something that they thought was being manipulated.

Angela Knight: Well, we still had something that needed to be done, did we not? It still needed to be investigated, it still needed to continue and we still could only do what we could do. A trade body has only certain powers; it does not have the rest. That is why I brought in, for example, Clifford Chance to help, because you have to do something. But I still am of the view that, if all this had been taken on early, you would not have been able to move away from problems and issues in what had been done up to that point, but you might have been able to get out to a better resolution.

Q70 **Chair:** Can I just take you back, which may also take us forward to the question of the OTS more directly, to something you also said earlier? I had the impression that you resigned from the BBA because you did not agree with the direction that policy was being taken in and that the banks were encouraging you or requiring you to go. Is that correct?

Angela Knight: No.

Q71 **Chair:** Just to be clear, the reason I said that was, for example, you said, "Maybe I should have resigned earlier"; that is, over PPI and the misjudgment on the court case that was run by the BBA, from which Lloyds broke rank, as you know, which brought it to an end.

Angela Knight: We did not run the court case. It is always said that the court case was taken by the BBA; it was not. The BBA was an umbrella and it was taken by the various banks using that as the legal way that they do these things.

Q72 **Chair:** Yes, absolutely. I should have included an extra sentence to describe it, but I did not. I am just trying to clarify why you left the BBA.

Angela Knight: Okay, let me be precise. As a result of the PPI case, I went to see my then chairman and said, "I wish to resign".

Q73 **Chair:** Is this Mr Agius?

Angela Knight: Correct. We had a discussion. He had a discussion with some others—I am not sure whom he discussed with—and they asked me if I would stay longer. Two reasons were given me at the time. The first was that the Vickers Commission was still working its way through and they wanted to see that through. The second was, as certainly more than one said to me, that it would be interpreted as me walking away. Under those circumstances, I decided to stay longer.

From my perspective, the timetable after that, having said that I would stay longer, was this: I was still hugely bothered about the whole Libor question, so I retained Oliver Wyman to do a very in-depth assessment of how a future rate should be set, what could it look like, what were the options, what was the governance process and so on. This time, I was really determined that the authorities would participate in some form and they did, with observer status. As soon as that was across the line and we put out our press release, which nobody took any notice of at all, I then resigned, and the reason was because I saw that I had got that there. I stayed long enough to at least make sure that nearly all the work was done, so I knew what was coming through. Those were my timetables and those were my reasons.

Q74 **Chair:** I am sure you understand that, from our point of view, your performance in these earlier jobs forms a major part of the evidence that the Committee needs to look at in order to assess your professional competence for the job that you are now just starting in the OTS. The reason that I raise this resignation issue is partly to know whether you would be prepared to resign if you felt you were being nudged—if I may use the word "nudged"—in the wrong direction by politicians, in a role that we believe should be demonstrably independent. That is why we have demanded a statutory basis for the OTS. Can we have an answer to that?

Angela Knight: I hope I have answered you, Chairman.

Q75 **Chair:** The answer is yes, you are prepared to resign.

Angela Knight: I am prepared to resign.

Chair: Even though you did not over PPI.

Angela Knight: I have just taken you through the steps and said I did, but then was persuaded to stay.

Q76 **Chair:** You did not resign earlier over Libor, although I think you gave the impression that you felt perhaps you should have done earlier.

Angela Knight: As to the impression that I gave, what I was trying to say was that, if I was there again, then I would really have—I was going to say "forced through"; I do not know if that is the expression—gone much further in trying to ensure that there was greater participation at that point from the authorities than turned out to be the case.

Q77 **Chair:** But, when you did not get that co-operation, as you see it, from the Bank of England and the authorities, you did not consider resigning at that time and making clear why you were going.

Angela Knight: No, I did not, for more reasons than one. We were still right in the middle of a huge crisis in 2008.

Chair: Although these events stretched beyond 2008.

Angela Knight: Yes, but the consultation period was 2008, and we took most of the latter part of 2008, when we realised what we could and could not get, going around and seeing the various authorities—Federal Reserve, Swiss National Bank and others—in order to talk about what governance we could put in, what we could and could not do and whether they were prepared to accept it. On the whole rates business and whether banks were setting the right rates or the wrong rates, because it was public and there were others who were digging away, doing analysis, that gave at least some comfort. Secondly, the FSA regulated what the banks did anyway, which gave a second bit of comfort. Thirdly, we just had to take away the fact that we thought this was more important than others did.

Q78 **Helen Goodman:** I just want to ask you if you can remember that already, in September 2008, an article was published in the *London Review of Books* by Donald Mackenzie in which he said, having described the process—he went down to the office to see how the whole thing worked, and how the chaps got the messages over the phone and some on the screen and had little chats and so on and so forth—"The obvious risk to the integrity of the calculation is that a bank on a Libor panel might make a manipulative input, trying to move Libor up or down so as to influence interest rates or the value of its swaps portfolio", which is exactly what happened. What I do not quite understand is why, if this speculation was in the public domain, you at the BBA were not also alert to this potential manipulation.

Angela Knight: We were. We were reading what was in the press, and there was discussion taking place in other areas as well. Bloomberg always had quite a lot of discussion going on about it. We could not do the investigation, from our perspective. If that is what is happening inside a bank, then the regulators need to get there. We cannot walk into a bank. This is a trade body. It does not have those powers. What a bank does, comes within the regulated environment. On the Libor process, indeed generally on rates process, the piece that is not within the regulated sphere is the setting of the rate itself. The submissions were made by a contributing bank directly to Reuters. They were the ones that then received those rates, did the first cut and check, did the calculation and then published. That was the bit that was not regulated. Reuters do these sorts of rates calculations all over the world.

You are absolutely right to ask, as there were these issues being raised, why that was not being investigated. The only piece that we could do was the piece that we did: technicalities, the volume of business, which related to whether you were or were not doing submission business to participate, and the third piece, which was a halfway go at managing to flag a better governance arrangement. All that we did and everything that we did we talked over time and again with and did presentations to the authorities. We were not hiding away. We could only do our piece, not the others piece.

Q79 **Helen Goodman:** When you say "the authorities", do you mean the FSA and the Bank of England?

Angela Knight: Well, no, not really. They are two, but Libor sets in several different currencies.

Helen Goodman: We do not need to go through what happens in Switzerland and America.

Angela Knight: We did that as well. We did the Fed, the Swiss, the Bank of Japan and a bunch of others.

Q80 **Helen Goodman:** If you were concerned that there might be a manipulation, surely it is obvious that that is a criminal offence. Did you go to the police?

Angela Knight: No. All we could see was what was written on paper, published and in the public domain. That is all we could see. We could not see anything internally from what we had, because the setting process did not come via the BBA at all. What you have written down there and what was published was all in the public domain. We could not see anything else.

Q81 **Helen Goodman:** Yes, but, if there is speculation in the public domain that there is manipulation and you are not able to look into it, then you might phone the police, in the same way that, for example, if one is suspicious that there are some child protection issues in one's constituency, one rings the police. You could have got in touch with the SFO, could you not?

Angela Knight: I am sorry; we saw it as being the regulator, so I beg your pardon. That is how it seemed at the time. There was speculation as to whether something was A or B. There was an issue, because you had an illiquid market anyway. There was chatter going on: "Was it X? Was it Y? Did somebody do this? Did somebody do that?" That is for the regulatory investigations. The piece that we could do we did. We kept in very close step with the UK and other authorities on what we were doing, what we could see, what we could not see, what we knew and what we did not know. Unfortunately—and it is unfortunate—we did not know anything and we could only do the bit that we could do. What was in the public domain was as much in the public domain for everyone else as it was for us. We did not know anything that was outside the public domain on that particular issue or related issues.

Q82 **Helen Goodman:** I want to ask you one last question. Did you find that you had a supportive relationship from Marcus Agius?

Angela Knight: Yes. Maybe I should also say that we worked well with both the FSA and the Bank of England, despite the fact that there could be differences from time to time.

Q83 **Chair:** There were pretty huge differences, it looks like.

Angela Knight: I am sorry, Chairman. I was not aware that you were going to say that. I was not aware that there was this big difference.

Q84 **Chair:** I find that surprising, bearing in mind all those hearings were widely covered in the press. All this was covered in the *Financial Times* and these hearings were in the public domain.

Angela Knight: I left four years ago. I do not think I can say just how thankful I am to have left and, if you had spent the time that I have being bashed from pillar to post by every conceivable group and body, and even you as the Select Committee, let alone the banks, I think you might have felt exactly the same as I have felt.

Chair: We get our share of bashing from time to time.

Q85 **Chris Philp:** I want to very briefly follow up on Helen Goodman's line of questioning. The BBA was responsible for setting Libor. You received inputs from the banks.

Angela Knight: No, we did not. The inputs went to Reuters; they did not come to the BBA. The banks sent their rates directly to Reuters. Reuters then did the shaving process, as they call it, because it was a shaved mean. I can go into that if you would like, but let us call it the shaved mean. Then they published the rates and, at the point they published the rates, that was the time that the BBA saw them. As part of that publication, if you had a Reuters screen anywhere in the world, you would have all the information that the banks had sent, whether or not a bank's submission had been used in setting the rate, and it did not come via us.

Q86 **Chris Philp:** What was the BBA's involvement in this, then, if Reuters was aggregating and publishing it?

Angela Knight: It really was one of these roles that, if you were doing it now, you would never have set up like that. It was a role of history where, once the information came back to the BBA, the BBA then sent it to various other interest groups that wanted to see it.

Q87 **Chris Philp:** You received it from Reuters.

Angela Knight: Yes, we received it from Reuters.

Q88 **Chris Philp:** Your role was to transmit it onwards.

Angela Knight: We transmitted it onwards to groups, all of which were listed as being interested—some universities, for example, and others. We did that. Then there was this independent what they called "foreign exchange and money markets committee", which again had been set up many years ago and to whom the BBA provided the secretariat.

That was the entity that considered what should or should not be used for the purposes of deciding whether it was a money market instrument. It was quite a technical piece.

Then there was a big—I do not know what I would call it—public good piece, because there was an awful lot of information that was out on a website and we updated the website. Then relationship management took place between somebody inside the BBA and both the contributing banks and the authorities. And that was where it was until the crisis hit.

Q89 **Chris Philp:** Did you also specify to Reuters the method for doing the shave calculation?

Angela Knight: I think the shaved mean calculation was something that had been there from the beginning. It might have had a few changes, but it had been there for 15-plus years.

Q90 **Chris Philp:** My final question echoes one Helen Goodman asked. Given that you had concerns that the inputs being provided to Reuters may have been manipulated, and given that that was outside your area of direct responsibility but you also had some sort of association with this whole process, did you write to the regulator saying, "We are concerned about the integrity of the inputs. Will you please use your investigatory powers to investigate"?

Angela Knight: Having come to this Committee without thinking about this issue, I am sorry, I had not expected at all to be asked about it, so I apologise. Looking back at the issues that we had, we knew what was being said in the public domain. We did not have any further information that somehow Bank X was doing this or Bank Y was doing that. We had none of that, but there were both meetings and exchanges of emails on the issue of whether or not the Libor rates that all the banks were setting were right or wrong.

Q91 **Chris Philp:** Meetings and emails between you and the regulators?

Angela Knight: Between the BBA and the regulators. Why do I not suggest to you this? You can ask me again, but I am not going to be able to remember any more than I have said. I recall very considerable discussion and exchanges on all these issues. As to the specific question you ask, I am afraid I cannot give you chapter and verse on that. I will go away, have a think about it and come back to you later, but this was no secret. This was no closet. This was no ducking away. The BBA was right there, participating and trying to get things right and wanting others to take it on.

Q92 **Chris Philp:** In general, were you encouraging the regulators to investigate these issues or were you representing your members and trying to discourage investigation?

Angela Knight: No, we were not representing our members and discouraging. We never had that conversation with our members. This is a serious rate. A serious rate needs to be looked at seriously. This was not a question of being discouraging. The BBA took it upon itself to say, "We have to seek changes. We need to participate with others and work with regulators and other authorities to get improvements", and we wanted the regulators to take it on. By the way, it was very well known that I was personally not in favour of Libor staying within the trade association and thought that it should be taken over by a third party.

Q93 **Stephen Hammond:** Can I change tack slightly? You have told this Committee how difficult your whole period was at the BBA, but particularly the latter period, when you were looking to leave earlier than you did. Given that you then moved to be chief executive of Energy UK, which is a relatively quiet part of the political arena, why on earth would you want to jump back into the fire of taxation, particularly with what Mr Mann and Mr Baker have said about evasion, avoidance and all the other issues that are associated with tax, which, whether or not they are in its remit, inevitably come to the Office of Tax Simplification? Could you just set out for the Committee why you have chosen to be so brave and what attracted you to this role?

Angela Knight: Or have I changed my mind by now: Why was I interested? Predominantly, the answer is, I am afraid, very much a plain Jane on. Having spent most of my working life in and around small businesses, they are the biggest tax collector for the country. They do not find the tax collecting particularly simple; they do not find the forms simple; they do not find what they do simple; they find it a disproportionate burden. The question therefore answers itself: can I offer some help and assistance there?

Q94 **Stephen Hammond:** Were you encouraged by anyone to apply for the role?

Angela Knight: Yes.

Q95 **Stephen Hammond:** Could you set out who encouraged you and why?

Angela Knight: There is a women's organisation that is pretty keen on getting more women involved particularly in public bodies, and they sent me the information on it. They were pretty keen that I put my name forward.

Q96 **Stephen Hammond:** Clearly, we can see from your CV your corporate history, an impressive corporate history, post-Government. Can you reassure the Committee how you intend to balance your time so that your current non-executive directorships will not impinge upon your role at the OTS?

Angela Knight: Yes, I can. At the moment, although there is something in the specification that says that the OTS chairman's role is two days a month, that is something I did not believe, frankly. I could see it as being rather more, particularly at certain times of the year. In order to free up proper time and availability for the role, one of the organisations that I am involved with I will cease to be involved with in a couple of months, and there is another that I am also reducing my involvement in. There is something about time availability, which is important, but also being available at a time that suits and is appropriate for the role, and not just the time that suits your own diary.

First of all, I thought that it could possibly require almost double the appointed time and that the time requirement would turn up patchily. It was from that perspective that I looked at my diary to make sure that I could provide the sufficient attention that this role requires.

Q97 **Stephen Hammond:** In your response to our questionnaire you said, “I am not aware of any interests or connections that might give rise to a conflict of interest when carrying out my duties”. Given you are now chairman of the OTS and you hold non-executive positions at both Tullett and what is likely to be Tilman rather than Brewin, even if you take that view, in the interest of probity and in the interest of perception, might it not be better to announce that you are stepping back from both those roles?

Angela Knight: I would rather not, frankly. One of the important things is that one stays involved in a variety of different parts of commercial life, rather than starting to withdraw from it. I would agree if you said to me, “Right, the role at the OTS is to think about new taxes, to think about tax breaks”, but it is not. It is to think about the post-event simplification, so I do not think there is a conflict there. That has not been raised with me as a potential conflict, and I have provided everything through the processes of the selection in order that it could be thoroughly looked at.

Q98 **Stephen Hammond:** Your answer to that question brings me on to the next area I want to tease out with you: basically, what you see as your role as chief. Secondly, if I heard you right, you said, “It is not to do with new policy; it is to simplify what is there”. What is the balance between you trying to ensure that the Treasury understand that any new tax they bring forward is simplified before they bring it forward and you reviewing the post-event?

Angela Knight: I am going to have to come back to you on that, because that is a question that I have asked as well. It is very clear that the OTS is put there to look at the post-event, not the creation process. Can one also, though, look at principles of simplification that are considered earlier up the food chain during the decision-making process? Is there something about the complexity index that can be developed so it will help that decision-making process? Maybe this is the answer, but you have to let me get my feet under the table, and then I will come back and discuss that with you at another time.

Q99 **Stephen Hammond:** It would be very helpful, maybe within the next month when you have had a chance to put your feet under the desk, if you could set out that balance for the Committee, because that is key for the direction.

Angela Knight: I will do.

Q100 **Stephen Hammond:** Leading on from that, as you have mentioned, a simpler tax system is likely to lead to less evasion and avoidance, or whatever you want to call it. How much do you think there is appetite for Ministers to understand that, and can you persuade the Committee that that is one of the key parts of your role?

Angela Knight: Just to clarify my earlier statement, the OTS does not take part, of course, in the tax-deciding process. That is for Ministers. That is for you. I took it as whether there is a set of principles that we could create that would aid that process for the purpose of simplicity.

Q101 **Stephen Hammond:** Do you think there should be a set of principles that Ministers should look at in terms of simplification?

Angela Knight: That is what I will have a look at, because you have a very valid point there and I will come back to you on that. That made me forget the second part, sorry.

Q102 **Stephen Hammond:** I am grateful that you are going to come back on that point. Given that that seems to be a key part of the role, I wanted to know how you think that you are going to persuade, first of all, Ministers of the relevance of the OTS and how, if you are just reviewing events post, you think that any input you have with Ministers is going to affect taxation policy in the future, because that is clearly the key.

Angela Knight: First of all, the very fact that Ministers have decided to put the OTS on a statutory basis clearly heralds the fact that they are taking this seriously. Secondly, although the OTS has made a significant number of recommendations and not all have been adopted, there is a chunk that they have put forward that has been adopted and is being implemented, some of which will be particularly beneficial. For a body that has not been on a statutory basis and has been in a trial period, I think that the director and his staff have done an excellent job and have proven the case that it is worthwhile having, which has been taken on board by the Ministers and it has been put on a statutory footing. There is a lot there that comes to the good.

How do we improve on that? How do we build on that? To a certain extent, I am looking to you, because, if the OTS, now with some new responsibilities, with its ability to do an annual report, with its ability to think of reviews other than those that are given to it, has a good relationship with this Committee or some subset of this Committee, who are themselves taking a close interest in simplification, then you have a very powerful tool to make simplification real for the man in the street, the small company. Making it real is important.

Q103 **Stephen Hammond:** In answer to a previous question, you mentioned to Helen Goodman your relationship in your previous role with Marcus Agius. Given that you are now effectively that role in the OTS, what principles did you learn from that in terms of your relationship with the tax director now?

Angela Knight: It is a good point. By the way, I have worked with a number of chairmen, and they come in different shapes and sizes as well as different sexes. There are some things that you need to be sure that you do as a chairman. The first is that you need to support your chief executive. The chief executive in this instance is your director, but a chairman has to be supportive of the chief executive. They have to help the chief executive and put in place a clear strategy, clear policies, clear modus operandi and, in this instance, they also have to play a key part in being an interlocutor, bringing together a whole different group of stakeholders and sorting out, again with the director, the doable from the not doable.

What you do not do is then go and ride on the director's shoulder or the chief executive's shoulder second-guessing the decision. A good relationship between a chairman and a chief executive is essential. The boundaries tend to be drafted slightly differently according to the personality, strength and skills of the two people involved.

Q104 **Stephen Hammond:** I have one final question. The subtext to almost all of your evidence in terms of Libor has been that there was a massive failure of the regulatory environment, and you have hinted at it several times. It would be helpful for the Committee if you set on record whether or not that is your view, that the previous regulatory environment was not able to cope, and whether the new regulatory environment is likely to be able to cope with such things in future.

Angela Knight: The major failures were within the banks themselves and the people who did wrong. That is the major failing, number one. Number two is who is there to police the perimeter and to investigate. There were a number of episodes in the time of the FSA that proved that change to the regulatory environment was necessary.

Q105 **Stephen Hammond:** Do you have any confidence the FCA is any better?

Angela Knight: I have huge confidence in the Bank of England and the prudential supervision. I think that is absolutely right. As far as the FCA is concerned, we are again in a position of having to wait and see a little; change of chief executives and so forth. But they have a big job to do and I sincerely hope that they do it properly, because this country and everybody in it, as well as the industry itself, benefits when you have a good, strong regulator that gets in quickly when there are problems, stamps out bad behaviour and we have a clear environment in which people can trust.

Q106 **Chair:** When it comes to chairmen and chief executives, etc, of course it all stems from leadership, and that is why we are doing the job we are doing this morning.

Angela Knight: That is fine, Chairman.

Q107 **Wes Streeting:** Good morning. Are you concerned about public perception that your appointment was highly politicised and that your independence is therefore questionable?

Angela Knight: I did not like to see that, but I then looked to see what was in my inbox and the people who had got in touch with me. Do you know, nobody said that—either those who emailed me, rang me up or I bumped into at various meetings.

Q108 **Wes Streeting:** The people you hang around with have no concerns, obviously, but there was a certain amount of media speculation, was there not? What will you do to respond to that?

Angela Knight: That is a fair point. I did not see it at the time. I thought the announcement had gone past without any comment at all. It was only a few days ago that somebody pointed out to me that it had not gone past without comment. All it does is it puts an additional requirement on me to ensure that I am independent and am seen to be, and that the OTS continues to act in a fully independent way and one in which people are sure that it is not part of something else; that it is a true body with a proper intention to undertake its role of simplification.

Q109 **Wes Streeting:** Given your background as both a politician and a defender of particular trade sectors that have been accused of paying too little tax, how will you demonstrate genuine independence in the role?

Angela Knight: One of the ways that you can demonstrate independence is openness, transparency, preparedness to consult. Where you have issues, debate those issues and come to clear conclusions, which are seen to be drawn from the commentary that has been given to you, from the points that people have made, from the answers to the review consultations and so forth, and that you are not held to one view or another; that you truly are presenting the case as it is.

Could I perhaps add one more thing? I do see why you and, indeed, others of the Committee have focused on what I would consider to be a very small part of my working career. I am, sadly, old enough to have worked for more than 40 years, of which I do appreciate five years was here in Parliament and five years at the BBA. That leaves 30 other years, and I think my record is one of being an independent individual who truly tries to ensure that what they do is honest, fair, open and transparent and as right as possible.

Q110 **Wes Streeting:** I am sure that no one around this table would disagree with politicians going on to do other things after they have left Parliament.

Angela Knight: I thought you might not.

Q111 **Wes Streeting:** Given some of the concerns the Committee has raised this morning about the level of tax paid by banks and the reports towards the latter half of last year, what role do you think your office could play through tax simplification in ensuring that banks and, indeed, other organisations are paying their fair share of tax?

Angela Knight: I am not dodging the question, but I can only answer, as I did earlier, that I will have to come back to you, because I honestly do not know the degree to which the Office of Tax Simplification and the whole simplification process has a bearing on this. I am not ducking or moving away from the point you made, and you are absolutely right that any entity—big, small, bank, other—needs to pay its fair share of tax. Some of it may well be a simplification issue. Another part might be your policy on how you assess tax or how it is assessed for a particular industry.

I spoke earlier about limiting the carry forward of losses, as Mark Garnier did. There was other commentary about internationality and where something is based for tax purposes. Those are different areas. Those are areas of policy that are outside of the role of the OTS. There is a fundamental point, though, I would suggest, that, if you can make something straightforward, then it is very easy to see where the dividing line is between right and wrong: you pay that tax; that is not taxable. On whether and to what degree the OTS has a role in that, I will have to come back to the Committee after I have had the opportunity to have a look.

Q112 **Wes Streeting:** One of the concerns that people raise, not just in relation to your appointment, incidentally, but more broadly, is the sense that there is a revolving door between Government and the private sector. In your particular case, people may say it is an extreme example, because you have been in Government, you have gone out to the private sector and are now returning to an important role in the public sphere. How do you respond to those criticisms of that revolving door and what advantages do you think you can bring to the role?

Angela Knight: Well, I did revolve out 18 years ago, so I do not think this is a terribly quick revolve back in. I revolved out, dare I say, because the electorate spoke; it was not exactly a voluntary process. My concern, to a certain extent, lies in a slightly different way.

I think you are absolutely right that you need to quiz people. You need to put them through a whole series of checks and questioning and all the rest of it, but my concern is this: if we have a system whereby you have come into Parliament—and maybe you had a ministerial job, maybe not—and then you lose your seat or leave Parliament and you find yourself not able to get a job simply because of the period of time that you were in, we will not attract people into Parliament again, or we will restrict very much the pool in which you can trawl to get your Members. You are right that there have to be proper, clear processes and scrutiny committees such as this and whatever, and I always thought there were time delays. Maybe there are not; there may be something there. But, if you have a system that then seeks to restrict significantly an individual earning their living after they come into Parliament, they are not going to come in the first instance.

Q113 **Wes Streeting:** Finally, on the remuneration, the OTS's interim framework document states, "No board member shall be paid for their duties as a board member", but the draft Finance Bill clauses allow for remuneration by the Treasury and the job spec states that the post "will be paid a daily rate commensurate with other public appointments". Is this a conscious change in approach to remuneration for the OTS board?

Angela Knight: Not that I am aware of. I think that, before it was put on a statutory footing, there was a scenario in which the chairman was not paid, but the director was part of the board and the director was, and is, paid an honorarium. When it is put on a statutory footing it is in a different place. Where I would go in to bat is that we have huge expertise right now in the director and, in future, here we are with a statutory body; surely we should pay for that expertise. You have to allow for reasonable remuneration if you want high-quality tax expertise, certainly in the director and the other staff within the OTS. But that is something I am happy to discuss with you as I start to look at the budget and the issues.

Q114 **Mr Rees-Mogg:** May I begin with a declaration of interest? Angela Knight and I serve on the Conservative Agents' Superannuation Fund. It is rather different from my normal declaration of interests, and it is not in my register because it is an unpaid post. We have done that together for some time.

Anyway, welcome and thank you for your evidence. If I may come back to the issue of what you will be doing as chairman and the detailed knowledge that you bring to it, one of the specifications is that the role requires an understanding of the trade-offs that Governments face when making policy. What trade-offs come immediately to your mind? What issues does that bring to the fore?

Angela Knight: I will use the current work on income tax and national insurance as an example. Clearly, this work is underway, but you, like I and everyone else, know that bringing NICs and income tax together has been a mantra for some time. I am sure, as far as making things simple is concerned, bringing them together would be really good. However, there are an awful lot of groups that would be adversely affected by such a proposition. If we are looking to see, as we are, where one goes with NICs IT, there are going to be some decisions where there will be trade-offs, because there will be downsides and upsides. You might have very significant costs with not necessarily commensurate benefits to all those across the piece. That is how I see trade-offs operating. What is the ideal? Where are we now? What can be done is so often somewhere in the middle.

Q115 **Mr Rees-Mogg:** In terms of simplifying national insurance and income tax, would you be trying to do it in a revenue-neutral way or do you have any leeway in terms of simplification to suggest money should be spent?

Angela Knight: Simplification is supposed to be revenue-neutral, yes. It has that as its framework. In the real world, not everything can necessarily be revenue-neutral, so what one would need to do is flag all the issues and then the discussion takes place as to which issues are pursued. It is an iterative and staged process.

Q116 **Mr Rees-Mogg:** In the calculations on revenue neutrality, are you allowed to assume a dynamism within the economy that may lead to increased tax revenues, which the Government used two or three years ago for corporation tax, but generally is not used in studies of tax rates?

Angela Knight: I have absolutely no idea, because I have not asked that question. I will have to find out and let you know, sorry.

Q117 **Mr Rees-Mogg:** No, not at all. Thank you. I once sat on a committee that looked at trying to simplify national insurance and income tax, and we came to the conclusion that we could only do so by hitting all the most likely people to vote Conservative, so it was a policy that was dropped.

On your background, the board has a lot of expertise on it; how does your own knowledge compare with the board?

Angela Knight: At the moment, the board has on it Teresa Graham, who is from—I apologise, I have forgotten the acronym, but it is all about making administration simpler, so there is some expertise in that direction. There is also another external appointee. There is the current director and then me. Then there is a gap, and that gap means that we can take in non-executive directors from outside, up to, I think, four.

Your point about expertise is very well made. The thinking has to be: what would be the best experiences of those four so they can come on the board and bring that experience to the party. Intuitively, I think there has to be somebody representing, say, the small business community. There has to be somebody who comes, maybe, from the taxpayer, the individual area. Do we need someone from something like the Institute for Fiscal Studies, a quasi-think tank? There are a number of options there. I would propose to look at what our programme is, what skills we have, where the skills gaps are and then seek external NEDs to come in and fill those gaps.

Q118 **Mr Rees-Mogg:** When you are doing that, will you be looking not necessarily for the conventional expertise, because if you are trying to simplify you may want to get people who have been thinking about it in a different way? The IFS is very much part of the normal tax establishment. You might not get very much innovative thinking from the IFS. Is there a broader pool you can go to who might be willing to think more widely around the subject?

Angela Knight: You may well be right and I am happy for any recommendations that you may have. Thank you.

Q119 **Mr Rees-Mogg:** In terms of your own expertise, you are happy that you can offer leadership to a group who may well know more of the detail than you do.

Angela Knight: Yes, I am, because a combination is what is needed. You want a whole load of experts, but if everybody is an expert you spend your time in the weeds. There is also something about the path and the place that you are trying to get to. Sometimes you have to have a balance that is a mixture of those who know the details and those who can see where you need to get to and what should be an end—an achievable goal—and put them together.

We find this in all walks of life. You might wonder whether the people who chair hospitals are all doctors, and the answer is no. Is a hospital a very complex medical place? Yes. Does the chairman have to do the operations? No. But can they manage and strategically lead the hospital? The answer is yes. It is getting the balance. You are right that the board members have to trust each other, there has to be some reasonable knowledge, there has to be time spent on comprehension, but if you have all experts there you may not get the result that you want.

Q120 **Rachel Reeves:** I want to come back to the issue that Stephen Hammond raised about your other business interests. You are a non-executive director at Brewin Dolphin and at Tullett Prebon. In your answer, you said that you did not think there was a conflict and having outside interests was useful. Part of your role at the Office of Tax Simplification will be influencing public opinion and also Government policy, and part of your role, although not, as you say, recommending new taxes, will be about simplifying and perhaps getting rid of taxes that could benefit financially these organisations where you are a non-executive director. Do you not recognise that there could be a conflict and be seen to be a conflict there?

Angela Knight: Only in the sense that, if you do anything at all that is not just the OTS, you inevitably will be involved with an entity that pays tax, small, medium or large. If you say that the thing you want is somebody who does the OTS and the OTS only, you are right that I am the wrong person, but in this life you have to get your information from other places. I cannot see that there is anything of the conflict that you suggest. Both those companies are pretty large. They are in a completely different tax space. They are not small companies. That is not really where simplification sits.

Q121 **Rachel Reeves:** But your role at the OTS is not just about small businesses.

Angela Knight: No, but that is inevitably going to be a prime focus, is it not? I would have thought that you might be quite pleased that I am involved with organisations that are commercial, that are good-sized PLCs, because that brings another dimension of knowledge into the situation. I am afraid I do not see it as in any way either affecting my independence or bringing a conflict to bear.

Q122 **Rachel Reeves:** Can I also ask how much time you spend on all the different non-executive directorships, as well as how much time you spend in your roles at Oxera and Goodacre?

Angela Knight: Oxera's advisory group meets three times a year, from about 5 o'clock in the evening until about 10 o'clock in the evening. Goodacre is a couple of hours, slightly more than every month. Those are advisory roles and I entered them as such. As far as the PLC roles are concerned, on average, you need to assume that collectively, put together, they will take up about two days a week.

Q123 **Rachel Reeves:** What about Transport for London?

Angela Knight: Transport for London I come off in May. I hope I said that in the information I gave you.

Q124 **Rachel Reeves:** Yes, but how many days a week or a month do you spend there?

Angela Knight: At the moment, I am there two mornings a month.

Q125 **Rachel Reeves:** Would you be willing to do the job at the OTS if it required you not having the PLC non-executive directorships?

Angela Knight: No, I would want to keep the PLC non-executive directorships. I still have to feed the family.

Chair: Thank you very much for coming to give evidence to us today, which is now, by a whisker, this afternoon; we have been going just under two hours. We are very grateful to you. We have ranged widely, but that is also a reflection of the fact that you have ranged widely over your career and we need to look at that in order to assess where you are likely to take OTS and your professional competence for the job. Thank you very much for coming.

Angela Knight: Thank you, Chairman.