



Fair Business Banking

Statement from the All Party Parliamentary Group on Fair Business Banking 21 June 2018

Draft Project Lord Turnbull Report Release

The All Party Parliamentary Group on Fair Business Banking has today published the draft Project Lord Turnbull report, which makes serious allegations of fraud, malpractice and a subsequent cover up at Lloyds and HBoS. We have released the report as part of our long-term aim to restore confidence in the banking system and allow those who are seeking redress as a result of the banks' actions access to evidence, which might support their claims. The contents and allegations contained within this report must be available to rigorous public scrutiny and full, forensic and expeditious investigations by regulators, fraud and crime agencies. Important though the report is, it should be considered in the context of other contemporaneous evidence.

The report was authored by former Lloyds Senior Manager in Credit Risk Oversight in the Regulation and Governance section of Risk Division, Sally Masterton. This followed concerns that Ms Masterton had raised relating to HBoS and its knowledge and concealment of fraud, the subsequent implications for the HBoS Rights Issue in 2008 and how those matters influenced the Lloyds TSB takeover in 2009. The fraud was later proven in the High Court in 2017 and is now known as the HBoS Reading fraud.

There is a clear chronology of missed opportunities for the banks and regulatory authorities to investigate the issues highlighted in the report. This dates back to 2007 and has led to a perceived lack of action on the part of the regulators and law enforcement agencies on the reported allegations. This has damaged business confidence in the regulators' ability and willingness to properly hold the banking sector and senior bank executives to account.

In the backbench business debate on 10th May 2018, Kevin Hollinrake MP initially revealed that he had received a copy of the draft Project Lord Turnbull report, sent by Michael Bancroft who was convicted of crimes related to the HBoS Reading fraud. We have published the report alongside the letter sent by Mr Bancroft dated 25.3.18. The APPG has been cautious about the processes by which the report could be released as the protection of the whistleblower is of utmost importance.

As a result, we again call on the Serious Fraud Office (SFO) and the National Crime Agency (NCA) to investigate the alleged criminality of individuals named in the report. We understand that the NCA is undertaking an initial scoping exercise to examine wider allegations of fraud and concealment of such that fell outside of the Thames Valley Police Operation Hornet investigation. This exercise must recognise the loss to business and livelihoods for many people as a result of the mistreatment

documented in the report and the potential loss to investors who participated in the HBoS and Lloyds rights issues and the subsequent takeover. Any resolution that does not recognise these wider issues will severely undermine confidence in our regulatory and enforcement agencies.

The report also makes serious allegations against KPMG. The APPG will write to Stephen Haddrill, Chief Executive Officer of the Financial Reporting Council, to press for a new investigation into the KPMG audit of HBoS with regard to the Reading fraud in February 2008, which gave the bank a clean bill of health only two months before it hit financial difficulty.

The internal Lloyds Banking Group review currently being carried out by Dame Linda Dobbs is welcome, representing at least some action and a recognition of wrongdoing and engagement with those directly affected by the criminal actions that took place. However, this review is still commissioned by Lloyds and witness participation is voluntary. We, therefore, re-state the need for an independent and public inquiry into these allegations in order to ensure full transparency and confidence in the process.

A comprehensive, independent and transparent inquiry is the only way that we can truly identify and provide remedies for the destruction of individual businesses and the loss that investors have suffered. This inquiry would directly address industry-wide issues at the heart of the discourse such as abuse of businesses in turnaround units, the insolvency process and inherent conflicts of interest. These have been highlighted by the draft Project Lord Turnbull Report as well as the Section 166 report into RBS' mistreatment of its small business customers but are not limited to these instances.

We are also very concerned that the current redress schemes for those affected at Lloyds and RBS are not fit for purpose. Despite persistent and strenuous denials of wrongdoing, these banks were respectively found guilty of serious fraud and mistreatment of their own business customers, yet the regulator, the FCA, seems content to allow them to operate their own compensation schemes, which are opaque, one-sided and, therefore, fundamentally unfair. We need an impartial, independent redress process so that those whose lives and businesses have been wrecked by these scandals have their faith restored in the system and receive proper compensation for their loss. Current proposals to extend the remit of the FOS will not be capable of delivering justice in many cases. The APPG is currently working on detailed proposals for a new primary dispute resolution mechanism and aims to publish its report in July.

The co-Chair of the APPG, Kevin Hollinrake MP, as a Prescribed Person under the Public Interest Disclosure (Prescribed Persons) Order 2014 is in receipt of a Protected Disclosure from Ms Masterton, which details significant concerns about her treatment as a whistleblower. Sue Harris, Group Audit Director of Lloyds Banking Group, originally instructed Ms Masterton to set out what she had found yet the bank continued to obfuscate on this important point. More recently, the bank made statements which still do not reflect the information that Sally Masterton provided to Kevin Hollinrake MP and we urge Lloyds Banking Group to set the record straight.