



GEORGE KEREVAN MP

HOUSE OF COMMONS
LONDON SW1A 0AA

8 February 2017

To: Andrew Bailey, Financial Conduct Authority, 25 The North Colonnade, London, E14 5HS

I hope you are well. I am sure you have been following developments in the HBOS Reading case and Lloyds' offer of compensation. I have received a letter from Antonio Horta-Osorio explaining he is consulting with the FCA regarding a review of the cases of the customers who were defrauded and the creation of a compensation scheme. I am delighted that Lloyds have responded so quickly, especially given the inordinate delay in bringing the case to court.

I note from Mr Horta's letter that "LBG will agree with [FCA] the scope, methodology and individual case outcomes of the review". He also says that Lloyds "will appoint an independent third party as part of the review".

As you are aware, there has been much criticism of the way RBS has approached its GRG compensation scheme. In reply, RBS has implied it has FCA "approval" for the scheme. Personally, I think the RBS compensation scheme is likely to fail as it arbitrarily limits the scale of business that can apply and is noticeably ambiguous regarding the rights of former customers who have gone into formal insolvency. I recognise that the potential number of complainers is huge but I believe RBS is being defensive and over prescriptive in its approach and that can only lead to prolonged criticism by everyone involved, which will do the bank's reputation no good. By the way, I'm have dinner with Ross McEwan and will put these points to him directly.

The link with HBOS Reading is that both myself and the APPG will challenge any suggestion from Lloyds that they are setting up a compensation scheme with similar defects, and I have written to the bank (letter attached), explaining our position. I'm writing to you, given the FCA is in dialogue with Lloyds, to ask that you take the following points into consideration:

1. It is important any compensation scheme is open to all the companies who may have been caught in the Reading affair, not just those who gave evidence in court. In fact, as many as 200 firms may have been caught in the swindle. I am anxious that the bank does not artificially limit access to the scheme.
2. Given that the small businesses involved were pressured into taking excessive loans whose value went not to them but the scammers, and given there is clear evidence that assets were involuntarily sequestered, evaluating the relevant compensation is complex. However, the bank should be generous in this given its own culpability in delaying the police investigation, and given the extraordinary time it has taken to bring this matter to justice.

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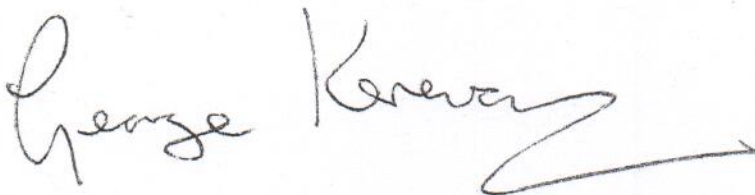
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3. To expedite claims, the bank has to be very public about what happened and who knew what within the bank management, both during the HBOS regime but also later when Lloyds took over.

4. There is much to be gained from building into the compensation scheme some form of professional arbitration from the start. This might involve insolvency practitioners given that forced insolvencies lie at the root of the issue. To this end it would be helpful if Lloyds sat down with the APPG and the customers who were wronged in order to help shape a resolution system that everyone can support. It is imperative that this engagement is with the people affected, who have suffered personal as well as financial loss.

I am very keen to move public discussion away from an ad hoc compensation scheme that is represented as fully sanctioned by the FCA to a more consensual, transparent and speedier resolution process - potentially some form of binding adjudication - that allows affected customers access to due processes. I understand from our previous conversations and correspondence that you are not unsympathetic to such an approach and might take our views into account in discussions with Lloyds.

A handwritten signature in black ink, reading "George Kerevan". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

George Kerevan MP
Chair APPG for Fair Business Banking