



HOUSE OF COMMONS

LONDON SW1A 0AA

Rt Hon Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

15th May 2019

Dear Philip,

Sally Masterton, former senior risk manager at Lloyds Banking Group (LBG), has made a protected disclosure to me as a prescribed person under the Protected Disclosure (Prescribed Persons) Order 2014. This is the second time Mrs Masterton has had to resort to using this process after previous requests that the FCA formally investigate her treatment by LBG have gone unheeded.

I have also previously written to the FCA and to Mark Carney at the Prudential Regulatory Authority (PRA) asking them to investigate the treatment of Mrs Masterton by LBG and specifically its CEO, António Horta-Osório, under the Senior Managers & Certification Regime without success. I enclose extensive correspondence between Mrs Masterton, the FCA and the PRA in addition to my own letters of request for action. The FCA's response to me was similar to their response to Sally Masterton; they simply refer to the matter in the context of the Dobbs Review.

As you know, the Dobbs Review will not report until 2020. It is entirely unacceptable that an investigation is delayed by the regulator into the potential serious mistreatment of a whistleblower, particularly one who had highlighted the deliberate non-disclosure of the HBoS Reading fraud and the non-disclosure of up to £40bn of stressed cases. In November 2018, LBG finally apologised for their five years of mistreatment of Sally Masterton and paid an undisclosed amount in compensation.

It is worth noting that the FCA has, at best, a chequered history in its handling of whistleblowers including being criticised by the Financial Regulators Complaints Commissioner for its treatment of an RBS whistleblower in 2013 and by whistleblower organisations and other commentators for its timid handling of whistleblower mistreatment by the CEO of Barclays in 2018.

Whistleblowers are a key part of our collective efforts to tackle financial fraud. It is therefore disappointing that the APPG is also liaising with a number of other whistleblowers who have sought assistance from the FCA but believe their complaints to be poorly handled. I understand that FCA statistics show a steady drop in whistleblower reports to the regulator.

Mrs Masterton states in her disclosure:

On 8 June 2018, I made a protected disclosure to Andrew Bailey of the FCA (attached), raising the following concerns about the Bank's conduct in relation to me:

(i) that I had been commissioned by LBG in 2013 to set out my concerns about the governance issues arising out of the HBoS Reading fraud. I did so, in the form of the Project Lord Turnbull Report, the draft front section of which I submitted to LBG in September 2013. I was thereafter placed on enforced leave. I submitted the full Report to the Bank's lawyers in January 2014, and asked expressly for it to be sent to the Board (both executive and non-executive members). Thereafter, LBG wrote to the FCA in disparaging terms about me, cynically intending to

undermine my credibility and minimise the impact of the Report. The Bank also informed the FCA that it would not conduct any investigation of its own, relying upon its own self-serving conclusions about my 'credibility', and falsely asserting that all matters were already the subject of investigation by other (regulatory or criminal enforcement) bodies;

(ii) fast forwarding from 2015 to 2018, that LBG was issuing demonstrably inaccurate press statements to the effect that they had not commissioned or sanctioned the Report, when the Bank knew such statements to be untrue.

I suggested to Mr. Bailey that LBG's conduct as described at (i) and (ii) was not consistent with the FCA's requirements of 'Integrity' and 'Openness with the Regulator', both of which apply to individual Senior Managers and to the Bank as an institution.

Mr. Bailey's response to my protected disclosure can only be described as inconsistent and lacklustre. Having agreed that I would be treated as a whistleblower and that my complaint would be handled by Mr. Bailey himself (rather than the FCA's Whistleblowing Investigation team), on 18 June 2018 Mr. Bailey sought my agreement as to the various strands of the issues which I was raising, which he framed in his own words as follows (emphasis added):

"As the next step, I would like to ensure we are agreed on the various strands of issues and what we do about them. I have had a go at this as set out below. Let me know what you think. There is no significance to the order beyond it being roughly chronological.

- 1. Who in HBoS management knew what about Reading and when did they know and what did they do about it. ...*
- 2. In the report you made a few observations that Lloyds should have spotted Reading earlier through providing banking services to victims. ...*
- 3. The behaviour of KPMG as auditors to HBoS. ...*
- 4. The behaviour of Lloyds on Reading following 2008. This is covered by the review being conducted by Linda Dobbs. We have made clear that we will look with great interest at the evidence that Dame Linda collects and her conclusions.*
- 5. The behaviour of Lloyds towards you. This is not covered by any existing investigation. It is therefore the main new issue to my mind and one that we must take very seriously. I would welcome your thoughts on how we can take this forward. A starting point would be for you to provide us with the evidence you have.*

These are very serious matters. I urge you to use all powers at your disposal, including Section 77 of the Financial Services and Markets Act 2012, to compel the FCA or the PRA to carry a thorough, transparent and robust investigation of Mrs Masterton's complaints.

Yours ever,



Kevin Hollinrake MP

Co-Chair of the All-Party Parliamentary Group on Fair Business Banking