LARGER THAN WATERGATE

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Anthony Stansfeld
Police & Crime Commissioner
for Thames Valley

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The successful prosecution of HBOS bankers and their accomplices in 2017 for massive fraud against small and medium-sized companies revealed wide-scale similar criminality at other banks. This has yet to be brought to justice. Consequently, many thousand victims of these frauds have yet to be compensated. The banks involved operated in concert with corrupt legal practices, accountants, insolvency practitioners, valuers, and others. The sums involved ran into many billion. People have been bankrupted, houses repossessed, lives ruined, and families living in poverty. Unlike the other huge scandals of LIBOR and PPI, which creamed vast monies off the top, these frauds were hugely personally damaging.

The concealment of the Turnbull report from the Chairman and non-executive board of Lloyds for over three years, and the treatment of its author by Lloyds Bank have been unacceptable. The report disclosed extensive criminal wrongdoing and the use of flawed accounting that overlooked huge losses within HBOS and allowed the prospectus for its £4 bn rights issue to go ahead. This report's main findings were well substantiated by the prison sentences given in the HBOS Reading trial. My views on this are echoed by the All Party Parliamentary Group on fair business banking.

Whilst I cannot verify all the detail contained in William May's report, I agree with the main tenet of it that something has gone badly wrong with the ethics and integrity of some of our largest banks. This needs sorting out, not hiding. The regulatory authorities and the Bank of England should have put a stop to this several years ago, not allowed it to continue. Action now needs to be taken to redress the wrongs, hold the guilty to account, and ensure that this never happens again.

Yours sincerely,

Police & Crime Commissioner for Thames Valley
Anthony Stansfeld

Office of the Police and Crime Commissioner The Farmhouse Force Headquarters Kidlington OX5 2NX
Tel: 01865 541948 **E:** pcc@thamesvalley.pnn.police.uk **W:** www@thamesvalley-pcc.gov.uk

About the author

Like his father, William May has spent his career predominantly in the City of London, initially with Cazenove & Co and latterly with the investment banking group, S.G. Warburg. Although his experience has been in stockbroking and fund management, he feels that he is able to recognise fraud, when he sees it. He is keen to play an active role associated with implementing the many reforms necessary to restore the reputation of the City of London.

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1. Introduction

Corruption & fraud at the highest level of Government

This report describes corruption and fraud at the highest levels of Government, and on a scale which the UK has probably never seen before. This has been conducted by successive Chancellors and their Treasury ministers, aided and abetted by senior civil servants in the Cabinet Office and HM Treasury. They have covered up criminal wrongdoing by the taxpayer-owned banks and thereby committed securities fraud.

The former Chancellor exerted improper influence over the UK's highest financial regulator, the Financial Conduct Authority (FCA) and ensured that its remit was inadequate in critical respects. There has been interference with the law and prosecutors and criminality involving one police authority has been ignored. Whole firms of solicitors, which have acted for banks and other financial institutions, have engaged in serious professional misconduct and criminal fraud for many years and their activities have been disregarded. Meanwhile, the failure to prosecute white-collar financial crime in the UK has become an international disgrace.

The serious misconduct and criminality described poses major questions for the way in which we are governed. If it is to survive and flourish, capitalism needs to be overseen with honesty, integrity and justice by those entrusted with senior roles. This has certainly not been the case for more than a decade and those responsible have no place in positions of authority. These have included not only senior ministers and leading civil servants, past & present, but also regulators, chairmen and chief executives of major banks and their agents, certain senior police officials and even some judges.

What has been taking place has been a complete racket and we are long overdue for wholesale reform, however long this takes.

Commercial lending – deliberately left unprotected

The Financial Services & Markets Act (FSMA) 2000, which was passed when Gordon Brown was Chancellor, underpins much of the UK's financial regulations. However, both he and leading civil servants at HM Treasury ensured that under this law, commercial lending remained unregulated and thus excluded from any of the customary protections, which would normally be expected. This situation has persisted to the present day, which will come as a shock to the vast majority of businesses.

Sir Howard Davies, the chairman of the regulator, the Financial Services Authority (FSA) at the time and now chairman of Royal Bank of Scotland (RBS), has claimed that extending regulatory protection to commercial lending would have made it more costly and caused the market to seize up. It was considered too expensive for the banks to behave properly, so the idea was shelved.

Private sector companies in the financial sector and their employees are subject to strict compliance rules, which govern their professional conduct. However, senior ministers and their civil servants complied instead with the wishes of the banks and ensured that the latter, in respect of their commercial lending, were untroubled by the rules and regulations, which the rest of society is required to observe. The result has been widespread wrongdoing, with the two taxpayer-owned banks breaking the criminal law in important respects.

FCA's Principles of Business	Description	Applicable to commercial lending (currently, unregulated)
Integrity	**A firm must conduct its business with integrity.**	**NO**
Skill, care & diligence	**A firm must conduct its business with due skill, care and diligence.**	**NO**
Management & control	A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.	Yes
Financial prudence	A firm must maintain adequate financial resources.	Yes
Market conduct	**A firm must observe proper standards of market conduct.**	**NO**
Customers' interests	**A firm must pay due regard to the interests of its customers and treat them fairly.**	**NO**
Communications with clients	**A firm must pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading.**	**NO**
Conflicts of interest	**A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.**	**NO**
Customers: relationships of trust	**A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment.**	**NO**
Clients – assets	**A firm must arrange adequate protection for clients' assets, when it is responsible for them.**	**NO**
Relations with regulators	A firm must deal with its regulators in an open and co-operative way and must disclose to the appropriate regulator anything relating to the firm of which that regulator would reasonably expect notice.	Yes

Cited by Treasury Select Committee report on SME Finance, pp. 23-24.

Lying & covering up does not pay

The lesson from recent events overseas is that lying and covering up does not pay. In the internet age, those who lie and cover up destroy their credibility, dig themselves into a much deeper hole and will always be found out. This comment applies equally to the conduct of successive Chancellors, Treasury ministers and leading civil servants in relation to the two taxpayer-owned banks, Royal Bank of Scotland (RBS) and Lloyds Banking Group.

Although this report is being issued during the current Brexit negotiations, its timing is purely accidental. There is never a good time to describe serious corruption and systematic cover up at the highest levels of HM Treasury and the civil service.

Its aims are three-fold: compensation for victims, the prosecution of principal offenders and most importantly, the introduction of a comprehensive programme of reforms, of which there is still no present sign.

The following pages contain some of the most serious charges, which could be made against such senior individuals, whose wrongdoing over many years can truly be described as:

Larger than Watergate

2. CHARGES

Serious wrongdoing and cover up has been orchestrated by the Chancellor and the principal civil servants at HM Treasury, especially in the previous administration. Our charges include:

Serious wrongdoing: Undertaking multiple acts of securities fraud, involving the sale of shares in the two taxpayer-owned banks, while simultaneously suppressing the public disclosure of major items of bad news relating to those banks.

Cover up: Allowing the taxpayer-owned banks to make widespread use of non-disclosure agreements (NDA's) to cover up extensive professional misconduct and criminal fraud.

Cover up: Suppressing investigation into major complaints against taxpayer-owned banks, which had been highlighted by prominent whistleblowers, such as Paul Moore and Sally Masterton.

Cover up: Bringing influence to bear on the Serious Fraud Office (SFO) not to investigate certain cases involving the taxpayer-owned banks.

Serious wrongdoing: Appointing to head the FCA in 2013, the chairman of KPMG (UK), on whose watch staff from his firm were responsible for numerous criminal actions involving Halifax Bank of Scotland (HBoS), its directors and accounts.

Lying: Describing the FCA as independent of Government, when in practice, this is not the case.

Cover up: Allowing the banks, entirely improperly, to appoint their own "independent" experts to investigate accusations of wrongdoing and determine compensation for victims.

Cover up: Ensuring that publication of the Section 166 review into RBS' Global Restructuring Group was postponed eight times.

Cover up: Knowing that one Police authority was criminally implicated in covering up protracted fraud undertaken by a company closely associated with Lloyds Banking Group and taking no action to have this investigated.

Cover up: Ignoring the obvious shortcomings of the Financial Reporting Council (FRC) with the result that criminal wrongdoing relating to HBoS and its accounts still has not been adequately investigated.

Serious wrongdoing: Intentionally manipulating aspects of the legal system to the disadvantage of bank victims, thereby bringing the judicial system into severe disrepute.

Cover up: Following the Blue Arrow trial of 1992, ensuring that senior bank officials and banks' professional agents enjoyed the status of "protected persons" and escaped prosecution. Some agents remain at large in the UK, who in any other jurisdiction would be serving lengthy prison sentences.

Cover up: Making sure that the judgment involving a nationally-significant case, which was put before the Criminal Cases Review Commission (CCRC) three years ago, was postponed to avoid highly-sensitive revelations being made public.

Cover up: Permitting the taxpayer-owned banks legally to intimidate national broadcasters, including the BBC, to remove sections of scheduled programmes, which described aspects of their serious wrongdoing.

After questioning UKFI's executive chairman (October 2014), Andrew Tyrie, chairman of the Treasury Select Committee said it was clear from Mr Leigh-Pemberton's evidence that the government's intervention in the running of RBS is "substantial". Mr Tyrie stated: "This is scarcely consistent with his assurance that the Treasury operates as a shareholder on an arm's-length basis. Whatever the reality, the perception will increasingly be that UKFI is being used as a fig leaf to disguise a high level of Treasury control of RBS, and probably Lloyds too".

Note: UKFI was the body set up by the UK Government in 2008 to hold the taxpayer's shareholdings in Royal Bank of Scotland (RBS) and Lloyds Banking Group.

3. LARGER THAN WATERGATE

What has taken place has arguably been the most widespread professional misconduct ever seen in the UK, which has frequently morphed into criminal fraud but what has been worst of all has been the way in which successive Governments have repeatedly covered this up.

Its origins can be found well before the 2008 banking crisis and after the Blue Arrow trial of 1992, some contend that there was a tacit agreement within Government that no senior banker should ever be sent to jail.

The 2008 banking crisis saw this process move into overdrive. Serious malpractice and criminal wrongdoing took place involving Halifax Bank of Scotland (HBoS), its directors and the accountants, KPMG. However, when a whistleblower threatened to reveal this, Lloyds Bank which later acquired HBoS at Prime Minister Gordon Brown's insistence, used a non-disclosure agreement to silence the individual, and lied about when they were first made aware of the major fraud involving HBoS' Reading branch.

The two banks, Royal Bank of Scotland and Lloyds, which were taken over by the Government, have been permitted to use every possible means to restore their balance sheets. When their actions developed into serious professional misconduct and criminal fraud, the former Chancellor and HM Treasury employed every arm of state to assist with covering this up. They ensured that prosecutors disregarded certain major frauds, notably those involving the taxpayer-owned banks, regulators have not functioned properly and due legal process has been compromised. Serial wrongdoing by professionals including lawyers, accountants, insolvency practitioners and receivers has been ignored and escaped prosecution.

The former Chancellor and HM Treasury made sure that the remit of the supposedly-reformed Financial Conduct Authority (FCA) was inadequate from the outset and that victims in all but the smallest of cases had nowhere to turn to. Osborne appointed as the FCA's chairman, the senior partner of KPMG, who is understood to have signed off the accounts of HBoS, despite his firm being responsible for numerous criminal actions in relation to the bank and its audit and later, the former Chancellor dismissed the FCA's Chief Executive to make sure that the latter followed the Government line completely, through

the appointment, famously "without interview", of the ultimate Government insider, the chief executive of the Prudential Regulation Authority (PRA) and a Deputy Governor of the Bank of England. Complaints against the banks were deliberately designed to fail. Meanwhile, the shortcomings of the Financial Reporting Council (FRC), which has been beset with multiple conflicts of interest, have been ignored.

Among the prosecuting authorities, the Chancellor and HM Treasury have retained tight control over the Serious Fraud Office (SFO), which has declined to investigate certain frauds involving the taxpayer-owned banks and their associates. Consequently, the UK's investigation and prosecution of financial crime has become significantly inadequate on an international comparison.

Once the regulators had failed them, the only recourse for victims has been to the law. However even here, the former administration made sure that the odds were even more heavily weighted against them.

Serious professional misconduct and criminal fraud have been overlooked by the regulatory arms of trade bodies such as the Solicitors Regulation Authority (SRA), the Institute of Chartered Accountants of England & Wales (ICAEW) and Royal Institute of Chartered Surveyors (RICS), which have viewed their principal role as protecting their members.

As Paul Moore, the original HBoS whistleblower, has observed:

"It seems to me that, in any civilised and developed society, if we cannot be satisfied so that we are sure that we can trust and rely on the competence, integrity and independence of our professionals – the very people who are supposed to be the best educated, brightest and most honest people in society – we are in real trouble."

There are only two avenues available to victims of banking misconduct, REGULATORY and LEGAL. Successive Governments, especially the previous administration, have repeatedly acted to close off both.

4. ROLE OF GOVERNMENT - INTERFERENCE WITH REGULATORS

The Financial Conduct Authority (FCA)

Given that the Financial Ombudsman Service has a ceiling for compensation of £150,000, Government has focussed its attention on the Financial Conduct Authority (FCA), which was supposed to represent an improved version of the Financial Services Authority (FSA). However, from the outset, the Government demonstrated that it had no such intention.

The former Chancellor appointed as chairman of the FCA, John Griffith-Jones, on whose watch as chairman of KPMG (UK), his staff had been responsible for conduct in respect to Halifax Bank of Scotland (HBoS), its directors and accounts, which was criminal as defined by FSMA 2000, the Companies Act 2006, the Proceeds of Crime Act 2000 and the Money Laundering regulations 2003 & 2007. Yet, Griffith-Jones was specially chosen by Osborne to head the UK's supposedly reformed, highest financial regulator.

The second sign that the former Chancellor' intentions were insincere was demonstrated by the inadequate remit provided to the new regulator. It might be supposed that a principal aim of the FCA would be to promote the highest standards of conduct within the financial industry. However, as described in "Our Mission 2017", its remit is worded in a different and unexpected way:

"The FCA serves the public interest through the objectives (protecting consumers, integrity and promoting competition) given to us by Parliament. They are the basis on which we are held to account. To deliver our objectives, Parliament has given us a range of tools. It has also given us independent powers to make decisions about how best we should use these tools. We can use them to serve the public interest in different ways but we must be targeted when we decide where and how we act."

In drafting the remit of the regulator, the former Chancellor made sure that complaints against banks could not progress but this did not prevent junior Treasury ministers including Andrea Leadsom and Harriet Baldwin referring

victims to the FCA, already knowing that this would cause them to go round in circles. Complaints have received the standard response that "the FCA cannot investigate individual cases" and complainants are often referred on to the Financial Ombudsman Service in the certain knowledge that its ceiling for compensation is inadequate for all but the smallest businesses.

Ministers have always insisted that the FCA operates independently of Government. However, this has in practice been totally untrue. Three years after its inception, the former Chancellor intervened to replace its Chief Executive, Martin Wheatley with a Government insider, Andrew Bailey who was more acceptable to the major banks. The ultimate sanction which the FCA possesses is to launch a Section 166 review under FSMA 2000 but the former Chancellor had already made sure, under the 2012 Financial Services Act, that HM Treasury retained ultimate control over Section 166 reviews, a power which the present Chancellor has refused to relinquish.

Financial Reporting Council (FRC) – shortcomings ignored

The connections between the FRC and Lloyds Banking Group could not have been closer. Sir Victor Blank was a member of the FRC, 2002-2007 and became chairman of Lloyds Banking Group (LBG), May 2006 to July 2009. Sir Win Bischoff succeeded him as chairman of LBG in September 2009 and retired in April 2014 – to head the FRC. In 2013, the conduct committee of the FRC chose not to investigate KPMG's audit of HBoS. Four former partners of KPMG and a former adviser to the firm were members of its ten-strong conduct committee. Only in 2017 did the FRC bow to external pressure and open an investigation into the audit but even in April, the regulator was fighting to keep files relating to KPMG confidential. Sir John Kingman, a former senior permanent secretary at HM Treasury, was appointed to lead a review of the FRC.

4. ROLE OF GOVERNMENT - INTERFERENCE WITH THE LAW

The Government has demonstrated disregard for the law in numerous ways and its inference with the legal system has been designed to construct as impenetrable a barrier to justice for victims as possible. Its actions have

brought the law and judicial system into severe disrepute. The Government has not respected its own laws. Meanwhile, it has made sure for bank victims that the judicial system was turned into an even more heavily biased and highly expensive farce.

The former Chancellor's own multiple counts of securities fraud demonstrated his disregard for existing EU and UK securities legislation including FSMA 2000, in the belief presumably that his actions remained above the law.

The Government has turned a blind eye to criminal conduct undertaken by the taxpayer-owned banks and their professional agents, which has permitted them also to consider that they are above the law.

In autumn 2015, seminars were held by the Attorney General for the entire judiciary and we understand that these may have represented a move by the Government to encourage the judiciary to rule in favour of the banks in order to prevent the establishment of a costly test case, such as with payment protection insurance (PPI).

The Government deliberately priced victims out of justice by abolishing legal aid for commercial businesses (2012) and increasing court fees by 600% (2015). Such moves merely exacerbated the already extreme imbalance of power in the legal system between banks and their victims.

Trials and trial dates have been manipulated to advantage by the authorities. This was notably the case with the HBoS Reading fraud. Firstly, the trial itself was repeatedly delayed and, we suggest, for more than procedural reasons. Secondly, the trial was mysteriously divided in advance, with the prosecution of a solicitor closely linked to Lloyds Banking Group taking place at a later date. This looks to have been a pre-meditated move designed to prevent this individual being found guilty by association with the six other individuals, who received lengthy prison sentences. It also supports the widely-held belief that agents, who have acted for the banks, are a "protected species".

4. ROLE OF GOVERNMENT - INTERFERENCE WITH PROSECUTORS

Over the last decade, the UK's treatment of serious corporate fraud has become significantly inadequate by international standards. As a result, the City of London has become the preferred centre for laundering illegal funds from Russia, Africa & the Middle East and the 'Ndrangheta. During this time, the UK Government has actively covered up professional misconduct and fraud undertaken by two of its largest banks. If it refuses to get its own house in order, there is no chance whatever that it will properly regulate inflows of illicit money from abroad. As a result, the reputation of the City of London has been badly damaged.

Serious Fraud Office (SFO) – inadequately funded & tightly controlled

The former Chancellor and HM Treasury have exerted strong control over the SFO. Its core budget has been broadly unchanged at c. £35 mn per year since 2009/2010, while serious corporate fraud has continued to expand rapidly. The SFO's blockbuster funding model is completely outdated and the inadequate funding of its core budget has left the SFO dependent on HM Treasury. The Chancellor receives advance notice of all its planned investigations and we believe that he has acted to prevent investigation of wrongdoing by the two taxpayer-owned banks. While she was Home Secretary and subsequently, Theresa May tried repeatedly to subsume the SFO under the National Crime Agency (NCA), a move which external experts have described as unwarranted and wholly inappropriate, given the NCA's lack of expertise in investigating complex fraud. As with the FCA, the SFO has become a revolving door with senior officers, including its former director, being attracted away to private sector firms.

4. ROLE OF GOVERNMENT – THE EXECUTIVE HAS IGNORED THE LEGISLATURE

The executive branch of Government has ignored and flagrantly dismissed the legitimate concerns of MPs raised in numerous debates for more than a decade. The supposed reform of the Financial Services Authority into the FCA and the Parliamentary Commission on Banking Standards have largely been a

sham. The current administration is understood to be working to blunt the effectiveness of the All Party Parliamentary Group on Fair Business Banking.

Acting on the instructions of Government, civil servants at the Treasury Select Committee (TSC) have ensured that certain reports critical of the banks have not been circulated to all members of the Committee. After its hearings, the TSC produces reports for Government but the latter is not obliged to accept its recommendations and as the Committee's recent report on SME Finance (October 2018) made clear, its powers are decidedly finite.

5. SECURITIES FRAUD

Both the former and the current Chancellor and the Permanent Secretaries to HM Treasury have committed securities fraud – those in the former administration on multiple occasions. They have done so both by actively suppressing, and by orchestrating a regime which actively suppressed, bad news concerning the taxpayer-owned banks, while simultaneously selling publicly-owned shares in those banks to institutional investors. Under Sections 85 / 87 of FSMA 2000, investors must be supplied with sufficient, suitable information to permit them to make informed decisions as to their investments and no mis-statement or concealment of any material facts or circumstances are permitted.

The former Chancellor chose the accelerated bookbuild and drip-feed methods for selling Lloyds shares to avoid the disclosure requirements of a full prospectus and abandoned plans for a sale to the general public, presumably for the same reason. Simultaneously, investigation into criminal misconduct involving HBoS Reading, Lloyds Recoveries Bristol and a secondary lender closely associated with Lloyds Bank was refused. Publication of the Section 166 review into Royal Bank of Scotland's recoveries unit, Global Restructuring Group (GRG), which deliberately distressed small businesses and sought to profit from them, was repeatedly postponed, while the sale of the first tranche of RBS shares went ahead.

The current Chancellor sold a further 8% shareholding in RBS in June, at a time when the Government's chosen appointee, the Chief Executive of the FCA was

refusing once again to publish the Section 166 report into RBS-GRG. More recently, the current Chancellor has been reported by a visitor to HM Treasury as wishing actively to suppress all complaints against the taxpayer-owned banks, presumably so that he can continue with sales of RBS shares.

Such conduct has continued because the Government and their civil servants have considered they could get away with it and would not be challenged.

6. "UNREGULATED" – SO THAT'S IT, THEN ?

The FCA took almost five years to conclude that since Royal Bank of Scotland GRG unit's activity involved commercial lending which was unregulated, it could take no enforcement action. This was deliberately deceitful because it could have stated this in 2013 and intentionally did not do so. That a certain activity is unregulated has been widely used as an excuse by the authorities and regulators not to investigate. Examples include:

The unregulated collective investment scheme (UCIS), Connaught has been frequently discussed in debates in Parliament but investigation of this fraud, which also involved serious wrongdoing by the FSA, has never been undertaken and the reasons for this failure have not been revealed.

Lloyds Recoveries, Bristol has made extensive use of an unregulated LPA receiver, even to the point of issuing false appointment documents to distance the bank from his widespread criminal conduct. Representatives of the bank were told by the Chairman of the Business, Innovation & Skills Select Committee in 2016 that the bank, itself a regulated lender, should under no circumstances be using such an individual.

The deceitful and corrupt pretence has been put forward that because certain activity is described as unregulated, it can escape prosecution. However, this is not the case. The term "unregulated" does not equate to a licence to commit larceny and fraud. All cases involving criminal conduct by unregulated entities or individuals should now be thoroughly investigated.

7. OBJECTIVES

This report has three principal objectives:

- Appropriate treatment and compensation to be given to victims of banking misconduct.

- The prosecution of leading professionals, who have acted for the taxpayer-owned banks and been engaged in serious professional misconduct and criminal fraud in executing these and other roles.

- The introduction of comprehensive reforms.

8. RECOMMENDATIONS

Our recommendations for reform would take time to implement but the present system is so corrupt and flagrantly biased that the establishment merely of financial services tribunals would be completely inadequate. It would also enable widespread criminal wrongdoing to be brushed under the carpet.

Financial Services Tribunals (FSTs)

The introduction of FSTs to arbitrate over disputes involving commercial customers and their banks will be the first in only a long list of necessary reforms and is supported by the Treasury Select Committee and the Financial Conduct Authority (FCA).

However, the Chancellor and HM Treasury are set to ignore their advice and instead favours expanding the role of the Financial Ombudsman Service (FOS), which is widely mistrusted and is wholly unprepared for such a change by next April. In short, this represents an alternative, which would obviously be highly unsatisfactory. Despite the catalogue of wrongdoing that has taken place, the Government still considers it appropriate for such disputes to be resolved in a manner, which is neither open nor transparent, because this is the option favoured by the banks.

This is the clearest possible demonstration that the Government remains as closely allied to the banks as ever.

Additional recommendations for reform

- Commercial lending by banks should become a regulated activity and the banks should have a duty of care for commercial borrowers.

- Recent discussion about the mis-use of non-disclosure agreements (NDA's) is especially applicable to the banks, some of which have actively used them to cover up serious wrongdoing. If the use of NDA's to cover up criminal conduct was itself made a criminal offence, their mis-use would decline dramatically. All NDA's used by the taxpayer-owned banks should be declared invalid, a move which would enable the true extent of their wrongdoing over several decades to be exposed.

- Banks should not be permitted to appoint "independent" experts to investigate allegations of their own serious professional misconduct and to determine compensation claims for victims. These practices have taken place repeatedly, are insulting to victims and highlight the banks' contempt for due and proper process. That these banks are supposed to be among the leading financial institutions in the UK demonstrates how far the Government and regulators have allowed standards of conduct to fall.

- The Fraud Act 2006 should be amended to make fraud easier to prove and much less expensive to prosecute. The excessively high cost of prosecuting corporate fraud continues to be actively used by criminals, including fraudulent solicitors, to escape prosecution.

- The penalties for criminal fraud of seven to ten years' imprisonment should be substantially increased, more towards US levels. If convicted, corrupt law officers and private sector professionals, those in whom the public is supposed to place their trust, should receive heavier sentences.

- Prosecution should take place of leading professionals in the banks and their agents, who have been responsible for serious wrongdoing and widespread fraud. This will prove a highly effective method of demonstrating swiftly to future generations of professionals that what they could get away with in the past, will in future land them in jail. This would result in a rapid improvement in professional standards and conduct.

- The Financial Services Act of 2012 should be revised to eliminate HM Treasury's powers of direction over financial reviews.

- Laws governing insolvency require comprehensive overhaul because they have been widely abused by fraudulent insolvency practitioners. The 1925 Law of Property Act requires revision, while the role of accountancy firms in insolvency, independent business reviews (IBR's) and administrations requires specific attention and rules governing pre-pack administrations should be tightened.

- The UK's prosecution of fraud is blatantly inadequate and the agencies responsible for prosecuting fraud require wholesale reform.
  "We are very bad at prosecuting financial crime in this country. I suspect financial crime is easier to get away with in this country than practically any other sort of crime." Rt. Hon Kenneth Clarke QC, MP, Today programme, Radio 4, June 2012.

- The SFO should be set up to be entirely independent of Government and financed from fines on banks and other financial companies. A less preferable alternative would be to increase the SFO's core budget and make it less reliant on blockbuster funding. Either way, the annual number of new investigations needs to rise significantly.

- The major Police authorities should receive a significant increase in funding to enable them to investigate and prosecute serious corporate fraud. They could investigate cases, which the SFO still may not have the capacity to investigate.

- In respect of Lloyds Banking Group and Royal Bank of Scotland, there should be immediate criminal investigations launched into the activities of their recovery units.

- The operation of the FCA requires significant reform. Its remit requires obvious adjustment in order to promote the highest standards of financial conduct. Its terms of reference should also be changed, so that it can consider individual cases. The Government's suggested alternative of widening the remit of the FOS by April 2019, demonstrates its ongoing determination to maintain inadequate regulatory oversight and investigation of bank complaints.

- There should be a much clearer distinction between regulators, prosecutors and those institutions over which they regulate and have authority. The present system, whereby senior FCA / SFO staff can resign and transfer to the private sector after only six months is unacceptable and has brought the regulatory and prosecutorial regimes into disrepute. A minimum gap of two years should be instituted and pay rates increased to reduce the incentive to move.

- The Financial Reporting Council (FRC) should be staffed entirely by independent professionals, who have no connection with the firms they are investigating.

- Self-regulation by professional bodies such as the SRA, RICS and ICAEW has not functioned correctly and has actively discriminated against or ignored legitimate complaints. External entities should be established to review and rule on complaints and the failure of their regulatory functions, which looks to have been deliberate, should be investigated. This especially applies to the SRA and its failure to hold certain fraudulent solicitors to account.

- Firms of solicitors should be held jointly and severally liable for their partners' actions and the status of limited liability partnership (LLP) should not stand, in the event of criminal fraud or other criminal conduct being proven.

William May

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williammay1@btconnect.com

APPENDICES

APPENDIX 1: LIST OF POTENTIAL CRIMINAL INVESTIGATIONS

1. Investigation into multiple counts of securities fraud, which are alleged to have been undertaken by the Chancellor and the Permanent Secretary to HM Treasury in the former and current administrations.

2. Investigation into the recoveries units of Royal Bank of Scotland, including the Global Restructuring Group (GRG).

3. Investigation into the recoveries units of Lloyds Banking Group, in particular Lloyds Bristol and Lloyds Bishopsgate.

4. Investigation into events surrounding Halifax Bank of Scotland (HBoS), and the role performed by KPMG, PWC and other professionals. To include the failure of the Financial Reporting Council (FRC) to investigate KPMG's audit of HBoS' 2007 accounts in a timely manner.

5. Investigation into additional aspects of the HBoS Reading fraud.

6. Separate investigations into two firms of solicitors, which have acted for Lloyds Banking Group.

7. Investigation into a secondary lender closely associated with Lloyds Banking Group, directors of the former and its network of associated professionals.

8. Investigation into a third firm of solicitors in connection with the above secondary lender and its activities, together with other alleged serious wrongdoing.

9. Investigation into another lender closely associated with the above secondary lender. To include the improper award by UK Asset Resolution to the former of large-scale mortgages owned by Northern Rock and Bradford & Bingley, which will have required the approval of the former Chancellor.

10. Investigation into a Police Authority, which has failed to investigate alleged wrongdoing by the above secondary lender and its professionals and principal officers of which are suspected of covering up criminal misconduct.

11. Investigation into the failure of the SRA, ICAEW and RICS to investigate serious wrongdoing by their members.

APPENDIX 2: THE TURNBULL REPORT – so dangerous they had to bury it

This describes the protracted cover up by Government and Lloyds Banking Group (LBG) of widespread criminal conduct involving HBoS, which was subsequently taken over by the latter at the Government's request. Lloyds' legal counsel witheld the report from its senior management. Later, when the Chairman of Lloyds Bank received a copy, he concealed this from the non-executive members of his board.

Sally Masterton, whose title was Senior Manager, Commercial Banking, Risk, Lloyds Banking Group, was commissioned by the bank's Head of Risk to write a report highlighting her concerns. She submitted this report ("Project Lord Turnbull") in September 2013 and was immediately put on enforced leave, in repudiatory breach of her employment contract. Ms. Masteron's whistleblowing contact at the FCA then cited s.348 of FSMA 2000, effectively preventing her from whistleblowing because any disclosure would not be protected. In January 2014, the bank's lawyers sent a redacted version to the FCA, claiming that the report was undertaken by Ms. Masterton of her own volition.

In a series of revealing e-mails in 2008, HBoS officers had disclosed their repeated attempts to keep the losses from the Reading incident to below 5% of net income, which otherwise would have required official disclosure. If it had been disclosed, HBoS would have been declared a gone concern by February 2008 and the takeover by LBG would not have taken place. Most of the principals involved were so heavily conflicted that their relationships best resemble three-dimensional chess.

Ms. Masterton's conclusions could hardly be more damning:

"LBG is in a very difficult position and cannot be risk being seen to condone criminality and injustice". "There are colleagues remaining in the business who are implicated". "The former directors of HBoS and certain senior executives have committed serious breaches and violations of statutory and regulatory objectives, including those of a criminal nature". "The FSA may have had an involvement with LBG, in concealing the misconduct and failings of KPMG". "The FSA are implicated in the 2008 (HBoS) rights issue". "KPMG have breached statutory, regulatory and professional obligations, including those of

a criminal nature. Their misconduct and failings are severe". "PWC have breached statutory, regulatory and professional obligations, including ones relating to money laundering offences. Their misconduct is of a serious nature". "Deloitte's s. 166 investigation (into the Reading incident) in 2009 appears flawed". "Deloitte may not have raised concerns into the conduct of senior executives, the directors, KPMG, PWC and certain insolvency practitioners".

"The strategy since January 2007 and possibly from 2005, has been to conceal the Reading incident". "There would appear to be tacit impunity for the serious crimes of the directors, KPMG and PWC". "All those involved have condoned criminality and injustice". "Those charged with governance and KPMG have condoned criminality and are themselves criminally implicated". "Lloyds TSB (formerly Large Corporate, Bristol) are a party to significant suspicious transactions relating to potential money laundering offences".

LBG subsequently misled Thames Valley Police about when it first knew about the Reading fraud. In fact, the Bank of England knew about it from September 2007 and the Prime Minister (Gordon Brown), HM Treasury and Lloyds Bank were all informed in October 2008.

KPMG – auditors of Halifax Bank of Scotland (HBoS)

The principal allegations contained in the Turnbull report are that: As auditors of HBoS, KPMG breached statutory, regulatory and professional obligations and duties, including those of a criminal nature. Over a sustained period, they did not act with integrity, objectivity and independence. They adopted a position intrinsically aligned to that of the directors of HBoS in serious breach of material regulatory and statutory matters, with persistent and deliberate disregard of professional standards. KPMG condoned criminality and they themselves have been criminally implicated. Essential information relating to the Reading fraud and the HBoS Corporate's stressed portfolio was deliberately not disclosed to Lloyds TSB shareholders. HBoS' 2007 company report and subsequent rights issue appear to have been fraudulent and based on information which was knowingly false. While Guy Bainbridge was the lead audit partner of HBoS for KPMG in the period 2003-2007, John Griffith-Jones

was the chairman of KPMG (UK) from 2006 and will have known all about the events described.

APPENDIX 3: FCA - EXAMPLES OF IMPROPRIETY & WRONGDOING

1. IRHP voluntary redress scheme

When the FCA had finalised their proposals for the Interest Rate Hedging Product (IRHP) redress scheme, the banks received an advance copy and raised major objections with the former Chancellor. The FCA's version was then heavily amended, with for example seventeen references to the need for an independent reviewer removed. Three FCA officers, who were responsible for drafting the scheme, were immediately moved to other jobs and once the voluntary redress scheme started to operate, all three left the regulator.

2. RBS-GRG section 166 report

The Tomlinson report first publicised the alleged mistreatment of SME's by Royal Bank of Scotland's Global Restructuring Group (GRG) in November 2013. Then, in January 2014, the FCA appointed Promontory and as a sub-contractor, Mazars, to conduct a Section 166 review under FSMA 2000. The British regulator was seemingly untroubled by Promontory's suspension by the New York banking regulator in August 2013 for unduly favouring Standard Chartered in a report, for which they were paid US$54.5 mn. Subsequently, RBS appointed Denton Wilde Sapp, Cameron McKenna and PWC to conduct a second investigation into the conduct of GRG, after the first investigation by Clifford Chance was considered a whitewash. After further delays, the FCA provided merely a summary of Promontory's findings in November 2016 and avoided publishing the full report, which they had received three months earlier. Finally, in July 2018, the FCA Chief Executive, Andrew Bailey declined to release the full report, but when this was finally produced at the insistence of the Treasury Select Committee, it revealed widespread systemic wrongdoing.

3. The Connaught fraud

Representations about the fraudulent unregulated collective investment scheme (UCIS) have been repeatedly made in Parliament. An American chief executive whistleblew in 2011 but the FSA declined to accept a suitcase full of evidence when he visited them. The case involved complicity between FSA staff and those it was supposed to regulate. However, more serious still is why the fraud has never been prosecuted. This may be explained by the close relationship enjoyed between the original manager of the funds and the Government.

4. Investigations quietly dropped

On New Year's Eve 2015, the FCA discretely shelved an inquiry into the culture, pay and behaviour of staff in banking, which had been included in its business plan for the year, published in March 2015. The decision resulted from pressure exerted by the former Chancellor, even though it was ostensibly taken by the FCA.

Another investigation, quietly dropped at this time, was a study into the manner in which banks incentivise staff to sell financial products. This was, in fact no small matter, given that the Royal Bank of Scotland recently agreed to pay a US$4.9bn fine over mis-selling of financial products in the US.

5. The revolving door

As described in Appendix 4, the FSA / FCA have witnessed an embarrassing revolving door as its senior officers have used their careers as a stepping stone to higher paid careers in the private sector. To be properly effective, it should not have been losing such experienced staff.

There has also been a wholly inadequate gap between officers leaving the regulator and them taking up post with a financial institution, which it regulates.

A similar pattern has been seen at the SFO, although on a smaller scale.

APPENDIX 4: THE FCA & SFO – THE REVOLVING DOORS

FCA - Name	Former role	New role
Sir Howard Davies	Chief executive, FSA	Chairman, RBS
Sir Hector Sants	Chief executive, FSA	Head of compliance, Barclays Bank
Tracey McDermott	Acting Chief Executive, FCA	Group head of corporate, public and regulatory affairs, Standard Chartered
Clive Adamson	Head of supervision, FSA	Non-executive director, Prudential; chairman of risk & capital committee. Non-executive director, J.P. Morgan Private Bank
Jon Pain	Head of supervision, FSA	KPMG, then head of conduct & regulatory affairs, RBS
Margaret Cole	Head of enforcement, FSA	Chief risk officer, PWC
Sally Dewar	Head of risk, FSA	Managing director risk, J.P. Morgan Chase
Clive Briault	Managing director, retail markets, FSA	Senior adviser, KPMG
John Tiner	Chief executive, FSA	Chairman of audit committee, Credit Suisse
John Murray	Head of communications, FSA	Head of communications, Credit Suisse
Christina Sinclair	Acting head of retail, FCA	Compliance head, Barclays Bank
Claire Lipworth	Chief criminal counsel, FCA	Partner financial services, Hogan Lovell
Adair Turner	Chairman, FSA	Non-executive director, Prudential
Katherine Leaman	Manager, professional standards team, FCA	RBS, then head of regulatory compliance, Standard Chartered
Fiona Fry	Head of investigations, FSA	Head of retail distribution review KPMG

SFO - Name	Former role	New role
Sir David Green	Director, SFO	Slaughter & May
Alun Milford	General counsel, SFO	Kingsley Napley
John Gibson	Senior prosecutor, SFO	Cohen & Gresser
Sacha Harber-Kelly	Prosecutor & case controller, SFO	Gibson, Dunn & Crutcher

APPENDIX 5: TRADE REGULATION – deeply flawed

1. Solicitors Regulation Authority (SRA)

As a trade body and a regulator, the SRA is seriously conflicted. It has regarded its primary role as protecting solicitors, who have acted for banks or secondary lenders, from investigation. Self-regulation has not worked, with the SRA declining to take evidence or rejecting other valid evidence en masse. Once the SRA has declined to investigate, there can be no appeal.

Fraudulent solicitors are especially dangerous for not only are they already experts in the law and how it can be manipulated to advantage but the cost of taking them to court can be prohibitive. Meanwhile, for the solicitor who invariably seeks to load costs onto their opponent, the marginal cost of legal action is close to zero, since they can make use of their firm's existing staff at little or no extra cost. In some cases, this makes the fraudulent solicitor unstoppable, turns a sophisticated white-collar criminal into an apparent genius and represents a further perversion of the legal system.

A criminal investigation should be undertaken regarding the deliberate failure of the SRA's regulatory process in certain key instances, because if the regulator had operated correctly, countless victims would have been spared their ordeals. As it is, fraudulent solicitors have been permitted to continue to practice and wreak havoc.

2. Institute of Chartered Accountants of England & Wales (ICAEW)

The ICAEW is also conflicted by being a trade body and a regulator. Its complaints procedure is multi-layered and opaque, with the investigative committee having the final say, again with no appeal. It is answerable to the Insolvency Service but the latter has no power to overturn a decision by ICAEW

not to investigate a complaint and so is powerless. The reluctance of the ICAEW to regulate its members adequately, notably leading firms of accountants, should be the subject of a separate investigation.

3. Royal Institute of Chartered Surveyors (RICS)

RICS too combines the functions of a trade body and a regulator. While claiming to "maintain the highest educational and professional standards (and) protect clients and consumers via a strict code of ethics", it has turned a blind eye to blatant misconduct by certain of its members, who have acted for the major banks or secondary lenders. This should also be the subject of a criminal investigation. The Government's response to a debate about RICS (Dr Lee, Under-Secretary of State for Justice, 18th April 2017) was "As things stand, we have found no evidence of anything untoward being done by any of these organisations." RICS' headquarters is adjacent to Parliament.

APPENDIX 6: TABLE OF BANKING MISCONDUCT

(Source: Robert Jenkins, member of Bank of England Financial Policy Committee, 2011-13.)

Mis-selling of PPI (payment protection insurance)

Mis-selling of interest rate swaps

Mis-selling of credit card theft insurance

Mis-selling of mortgage-backed securities

Mis-selling of municipal bond investment strategies

Mis-selling of structured deposit investments

Mis-selling of foreign exchange products

Misleading statements to investors involving capital raising rights issue

Misleading investors in the sale of collateralised debt obligations

Abusive small business lending practices

Predatory mortgage practices

Abusive or inappropriate foreclosure practices

Aiding and abetting tax evasion

Aiding and abetting money laundering for drug cartels

Violations of rogue-regime sanctions

Manipulation of LIBOR (London inter-bank offered rate)

Manipulation of Euribor (Euro inter-bank offered rate)

Manipulation of foreign exchange markets

Manipulation of London gold fixing

Filing false statements with the Securities & Exchange Commission (SEC)

Mis-reporting related to Barclays' emergency capital raising

Falsifying customer data and records (RBS and others)

Misleading shareholders ahead of RBS rights issue

Misleading shareholder information with respect to Lloyds' takeover of HBoS

Conspiracy to force small businesses into bankruptcy to the benefit of the lender and its agents (RBS, Lloyds Banking Group & others)

APPENDIX 7: LIBOR manipulation – truth never intended to come out

The London Inter-Bank Offered Rate (LIBOR) is recognised as the international benchmark for determining the interest rate applied to a wide range of financial instruments and agreements. The Panorama programme ("The Big Bank Fix", 10th April 2017) contained the transcript of a telephone conversation between traders at Barclays Bank, in which they referred to pressure being exerted on them by the Bank of England to manipulate LIBOR. This was later corroborated by a document from the US State Department. Given the strong connection between the Chancellor, HM Treasury and the Bank of England, the latter must have been acting under instructions. The Government has permitted low-level traders to be prosecuted but no senior bankers have ever

been held to account, given that they remain a “protected species”. In July, the SFO announced that it would be dropping the LIBOR rigging case against Lloyds Bank, citing its inability to find an expert witness to provide evidence for the defence. More than 20 Lloyds and HBoS staff were said to have been aware of or involved in rate manipulation, according to a £218 mn settlement agreed by the bank in 2014.

APPENDIX 8: HSBC, Mexican drug money & the former Chancellor

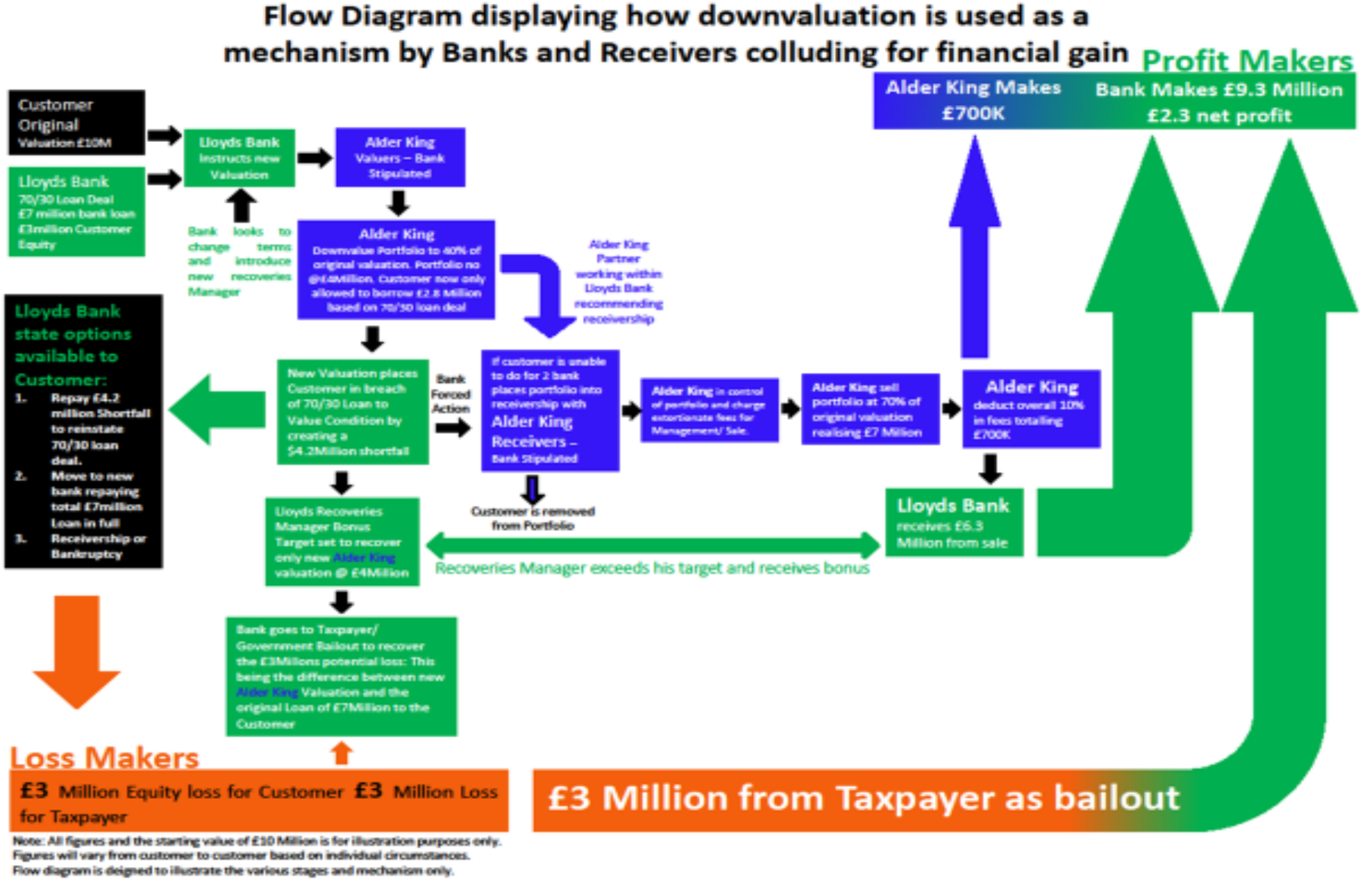
In 2012, the former Chancellor intervened directly with US authorities over their investigations into HSBC and Standard Chartered, when the former was coming close to losing its US banking licence. However, Osborne wrote to the Chairman of the Federal Reserve and the US Treasury Secretary, suggesting that such a move could “destabilise the bank globally with very serious implications for financial and economic stability, particularly in Europe and Asia.” He added that the scale of the potential enforcement actions against Standard Chartered and HSBC “is leading many to suggest that UK banks are being unfairly targeted”. He later visited both men. The US Attorney General subsequently intervened at the last minute and offered HSBC a deferred prosecution agreement. In December 2012, HSBC paid a record fine of US$1.92 bn for being used to launder Mexican drug money. Meanwhile, Standard Chartered paid two fines of U$340 mn and US$327 mn for other infringements.

Included in the £1.14 mn, which Osborne had earned at one point from speeches since he was sacked as Chancellor in September 2016, was the payment of £68,225 from HSBC for five hours’ work.

APPENDIX 9: UK Asset Resolution – a wrongful award

In October 2014, UK Asset Resolution awarded £2.7 bn of mortgages previously owned by Northern Rock and Bradford & Bingley to a certain lender. Given the size of the transaction, this will have required approval from the former Chancellor. This company has been closely linked with a notorious secondary lender, through the payment of secret and illegal commissions and its directors have held shareholdings in one of that lender’s principal subsidiaries. Due diligence was inadequate and complaints about this award have been ignored.

APPENDIX 10:


Flow Diagram displaying how downvaluation is used as a mechanism by Banks and Receivers colluding for financial gain
Profit Makers
Customer Original Valuation £10M
Lloyds Bank 70/30 Loan Deal £7 million bank loan £3million Customer Equity
Lloyds Bank Instructs new Valuation
Alder King Valuers – Bank Stipulated
Alder King Makes £700K
Bank Makes £9.3 Million £2.3 net profit
Bank looks to change terms and introduce new recoveries Manager
Alder King Downvalue Portfolio to 40% of original valuation. Portfolio no @£4Million. Customer now only allowed to borrow £2.8 Million based on 70/30 loan deal
Alder King Partner working within Lloyds Bank recommending receivership
Lloyds Bank state options available to Customer:
1. Repay £4.2 million Shortfall to reinstate 70/30 loan deal.
2. Move to new bank repaying total £7million Loan in full
3. Receivership or Bankruptcy
New Valuation places Customer in breach of 70/30 Loan to Value Condition by creating a $4.2Million shortfall
Bank Forced Action
If customer is unable to do for 2 bank places portfolio into receivership with Alder King Receivers – Bank Stipulated
Alder King in control of portfolio and charge extortionate fees for Management/ Sale.
Alder King sell portfolio at 70% of original valuation realising £7 Million
Alder King deduct overall 10% in fees totaling £700K
Lloyds Bank receives £6.3 Million from sale
Customer is removed from Portfolio
Lloyds Recoveries Manager Bonus Target set to recover only new Alder King valuation @ £4Million
Recoveries Manager exceeds his target and receives bonus
Bank goes to Taxpayer/ Government Bailout to recover the £3Millions potential loss: This being the difference between new Alder King Valuation and the original Loan of £7Million to the Customer
Loss Makers
£3 Million Equity loss for Customer £3 Million Loss for Taxpayer
£3 Million from Taxpayer as bailout
Note: All figures and the starting value of £10 Million is for illustration purposes only. Figures will vary from customer to customer based on individual circumstances. Flow diagram is deigned to illustrate the various stages and mechanism only.