OUT OF GREENSILL CAPITAL

Case overview

Founded in 2011 by Lex Greensill, Greensill Capital (Greensill) promoted itself as a revolutionary finance firm which wanted to "make finance fairer" and "democratise capital", offering strategies for businesses to receive payment faster.

As a "saviour" of small businesses, Greensill grew exponentially, rising to be one of the biggest players in the industry and being dubbed as a "once in a generation" company that had the potential to be valued at US$30 billion. However, after Tokio Marine discontinued its insurance policies with Greensill and Credit Suisse Group AG froze US$10 billion of Greensill funds, it took only two days for Greensill to collapse. Greensill filed for insolvency in March 2021, and investigations began looking into what went wrong.

The objective of this case study is to facilitate a discussion of issues such as supply chain financing; risk management; fraud; disclosures; corporate lobbying; relationships between former government officials and businesses; and role of investment banks.

Alexander the Great Greensill

> "I had an ambition that's shared with my brothers, we're all partners together, to make a difference and I guess we have in that way been able to grow something that makes a difference to hundreds of thousands of people."
>
> – *Lex Greensill*[1]

Born in 1976, Alexander "Lex" Greensill (Lex Greensill) grew up mainly on his parents' melon and sugar cane farm in Bundaberg, a small town north of Brisbane. The family farm often found itself in debt due to prolonged delays in payments for their produce. As a result, the family often lived hand-to-mouth, resulting in Lex Greensill having to take on a correspondence course as his family could not afford to send him to university.[2]

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In 2001, Lex Greensill, then 24 years old, moved to the U.K. from Australia. Four years later, he joined investment bank Morgan Stanley, which was expanding in supply chain finance at that time. In 2011, he established the supply chain finance company, Greensill Capital (Greensill), with its headquarters in London, to help small businesses get paid faster.[3] This was accomplished by having Greensill act as a middleman, providing businesses with alternative sources of funding. This model provided suppliers with the opportunity for faster payment, while concurrently preserving Greensill's own capital position.[4]

From its inception until the end of 2019, Greensill facilitated payments to over eight million suppliers in 165 countries.[5] At its peak, Greensill was valued at US$4 billion after a US$1.5 billion capital injection from SoftBank Group Corp.'s (Softbank) Vision Fund.[6] As a result of the company's achievements, Bloomberg once heralded Lex as "the king of supply chain finance",[7] while Masayoshi Son frequently lauded Greensill as an "innovator" and "artificial intelligence entrepreneur".[8]

Greensill's formula for "success"

Comprising of three main entities – Greensill Capital Pty Ltd (Australia), Greensill Capital U.K. (U.K.), and Greensill Bank (Germany)[9] – Greensill specialised in supply chain finance, also known as reverse-factoring. In its simplest form, supply chain financing involves companies making arrangements with banks to quickly pay supplier bills so that they can maintain their cash for a longer period of time. The transaction is in substance a loan that the company subsequently repays. The amount paid to the supplier is discounted in return for quicker payment, and the financial intermediary profits from that margin.[10]

A summary of the supply chain financing mechanism is shown in Figure 1.

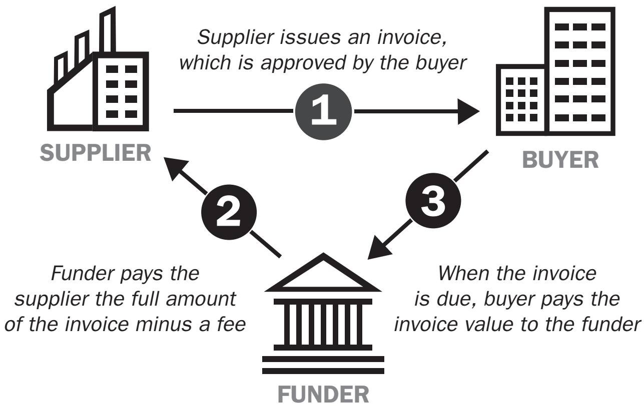

Figure 1: Basic mechanism of supply chain financing[11]

Supporters of supply chain financing state that the mutually beneficial arrangement enables prompt payment for suppliers, while big businesses can smooth out their flow of outgoings.[12] Additionally, suppliers benefit from their buyer's high credit rating to obtain financing at lower rates.[13]

As supply chain financing does not have the same disclosure standards as more traditional forms of debt, businesses which engage in such arrangements reportedly often just say that they "have an arrangement with suppliers for early payments" in their accounts.[14,15] Furthermore, under accounting rules, companies using such facilities do not have to classify them as debt but are able to book them as "accounts payable" on their balance sheets. Analysts have raised concerns that as a result of this, "spiralling de facto corporate borrowing" can be hidden.[16]

Greensill's special supply chain financing

Unlike traditional supply chain financing, Greensill packaged the short-term cash advances into bond-like securities which promised to give investors a higher return than typical bank deposits.[17] The securities were then sold through Credit Suisse Group AG (Credit Suisse) and a Swiss management firm called GAM Holdings AG (GAM). The money received from investors were then used to pay the suppliers. The end result was that suppliers get paid early for invoices.[18]

Greensill ultimately built its business prowess by transforming a "mundane" finance practice into a "win-win" profitable business by pushing risks involved to insurance companies and other financial companies.[19]

Ground-breaking technology

Greensill also presented itself as a "fintech revolution"[20] and "the UK's most valuable financial technology company".[21] Greensill claimed that its technology could assess the risk of loans using artificial intelligence, and sold the debt to outside investors – who saw it as an opportunity to earn greater returns with almost no risk – rather than providing loans to businesses with its own cash.[22] However, it was subsequently revealed that despite its claims, Greensill had a heavy reliance on third-party software platforms such as Taulia.[23]

Lex Greensill also made lofty claims that with complex algorithms going through real-time information on sales and suppliers, Greensill could predict future cash flows with accuracy and spot changes in a borrower's creditworthiness in a timely manner. In reality, much of Greensill's lending was based on "rudimentary forecasting", with employees allegedly using simple spreadsheets instead of groundbreaking technology it had claimed.[24]

Shady business

Swiss fund manager, GAM, was a major buyer of Greensill's notes, and served as a type of "off-balance-sheet financing tool for Greensill's clients".[25] As a major investor in supply chain finance deals arranged by Greensill, GAM provided large sums of money to metals magnate Sanjeev Gupta's Gupta Family Group Alliance (GFG Alliance).

In 2015, Tim Haywood – a star portfolio manager at GAM – had begun investing into Greensill's supply-chain finance notes. The initial investment ballooned, and in 2016, Haywood's funds had lent US$128 million to Greensill.[26] The following year, a whistleblower raised concerns regarding the Greensill investments – many of which were very illiquid, triggering an internal investigation. GAM engaged law firm Bryan Cave Leighton Paisner to review the allegations, as well as Grant Thornton to conduct forensic audit work. The internal investigation's findings uncovered serious flaws in GAM's due diligence – in particular, risk management and record keeping procedures[27] – with respect to the Greensill deals.[28] Haywood was found to have gone against risk management procedures to safeguard against "rogue deals".[29]

GAM suspended Haywood in July 2018 and eventually dismissed him for "gross misconduct" in February 2019.[30] The initial suspension of the star trader caused alarmed investors to exit his funds,[31] and eventually the funds Haywood managed were closed.[32] Between September 2016 and May 2018, Haywood had invested over £2 billion into Greensill-sourced assets, which included securities backed by aircraft lease payments from Norwegian Air and a Russian cargo carrier, as well as a loan to a property developer for a stake in a New York skyscraper. A significant amount of money was also used to "effectively finance Greensill itself".[33]

More red flags

After the GAM fiasco, Credit Suisse stepped in to become Greensill's main source of funding through a US$10 billion range of supply-chain finance funds which bought Greensill's invoice-backed debt products. However, during the stock market crash arising from the COVID-19 pandemic, Credit Suisse's unnerved clients withdrew billions of dollars from its funds in March 2020.[34] With its supply chain funds on the verge of closure, Credit Suisse entered into a deal with Softbank, which was willing to invest US$1.5 billion into the Swiss bank's funds containing Greensill securities to keep it afloat.[35] In exchange, Softbank's Vision Fund received more equity in Greensill, cumulating to a 40% stake. Greensill subsequently used the Credit Suisse funds to finance a number of poorly performing start-ups in the Vision Fund. As a result, Greensill and SoftBank were "in effect channelling a circular flow of financing through the funds".[36]

Earlier in 2019, SoftBank's Vision Fund invested US$8 million in Greensill and valued the supply chain finance company at approximately US$3.5 billion.[37] However, a SoftBank due diligence report issued ahead of its investment in Greensill raised a red flag – almost 75% of Greensill's 2018 revenues had been derived from just five clients. Nevertheless, the conclusion of the report was that Greensill faced "minimal legal or regulatory risk", partly based on the "expectation that GAM clients ultimately will profit" when the Greensill investments were repaid.[38] It was later reported that the Vision Fund had backed Greensill with a total of US$1.5 billion in 2019.[39]

Man of steel

In 2019, over 90% of Greensill's revenue came from five clients, including coal-mining company Bluestone Resources Inc. (Bluestone), British wireless giant Vodafone Group PLC, and U.K. steel magnate Sanjeev Gupta.[40] GFG Alliance – Greensill's most important client[41] – is a network of businesses owned by or linked to Gupta, who was once celebrated as "the saviour of steel". Gupta led GFG Alliance on a mission "to rescue dying industrial communities".[42] Gupta's family business expanded rapidly, and after a series of acquisitions, turned into a sprawling business empire, spanning metals to banking. Its operations eventually covered four continents, employed over 30,000 people, and produced revenue of over US$20 billion.[43]

Gupta took many loans from Greensill – including US$900 million "backed by cash flows from projected government subsidies tied to experimental biofuel generators"[44] – and the relationship between Gupta and Greensill was "unusually close".[45]

The relationship between Gupta and Greensill began in 2015.[46] The following year, Greensill posted losses of US$54 million for the year and was looking for ways to rejuvenate its business.[47] At the time, Gupta was looking for financing after his trading house, Liberty Commodities, and parent company Liberty House Group, had been shunned by the conventional banking sector for irregularities and problems around trade documentation.[48,49] Major banks such as Goldman Sachs Group and ICBC Standard Bank refused to offer credit to Gupta's trading company, questioning the veracity of documents provided by Gupta. Despite Gupta's unstable credit history, Greensill extended US$5 billion worth of credit from 2015.[50] In 2017, 69% of Greensill's net revenue was derived from arrangements with GFG.[51]

In 2019, GFG used money borrowed from Greensill to finance the US$877 million purchase of a number of aging steel plants in countries such as Romania, North Macedonia, and the Czech Republic from ArcelorMittal SA. Although the loans had been secured against inventories of Gupta's Australian businesses, he shuffled the funds to another company involved in the European acquisition. After successfully acquiring the steel plants, Gupta used the assets to obtain a further US$2.6 billion credit line from Greensill.[52,53]

Growing concerns

Greensill's continued exposure to GFG Alliance grew as the steel and commodities conglomerate developed a growing reliance on Greensill to continue providing funding.[54]

In December 2020, the Federal Financial Supervisory Authority (BaFin), Germany's financial watchdog, proposed a concentration reduction plan for Greensill to minimise its exposure to Gupta-linked companies after it lent more than €1 billion (US$1.1 billion) to them collectively. In response, Lex Greensill said that the plan "was going to be impossible for Greensill to comply with".[55] In February 2021, BaFin once again raised its objections on Greensill Bank's concentration risk relating to GFG Alliance. It was reported that by late 2019, Greensill Bank's exposure related to GFG Alliance had ballooned to about €1.5 billion (US$1.65 billion).[56]

Tokio Marine pulls the plug

> "Given the current situation, we will not be able to bind any new policies, take on any additional risk nor extend or renew any Greensill [sic] policy past what had previously been agreed. Please take this statement as a blanket answer for any requests from Greensill to look at additional limit coverage, maximum limit capacity or timeframe of a policy period."
>
> – *Tokio Marine*[57]

In July 2020, Japanese insurer Tokio Marine Holdings (Tokio Marine) informed Greensill that it would not renew US$4.6 billion in insurance policies. The decision came after Tokio Marine discovered that an employee at one of its subsidiaries, Bond & Credit Company (BCC), had provided insurance coverage that exceeded its risk limits.[58] Tokio Marine had purchased the insurance underwriter from Insurance Australia Group (Insurance Australia) in April 2019, but only took notice of its dealings with Greensill about a year later. BCC had extended insurance to over US$7.7 billion in trade credit to Greensill.[59]

It was reported that Tokio Marine's insurance coverage effectively made the Greensill funds "almost risk-free – almost as safe as cash in the bank but with a slightly better return".[60] However, with Tokio Marine pulling out, Greensill's business model could not function as "without them, the machine was stuck".[61]

In desperation, Greensill tried to obtain an extension of the coverage by taking legal action against its insurers – BCC Trade Credit, Tokio Marine and Insurance Australia. It said that in the event the insurance policies are not extended, Greensill's "economic viability would immediately and seriously be impaired as its primary sources of funding, and revenue, would immediately cease".[62] Its plea was ultimately unsuccessful when a judge in the Supreme Court of New South Wales in Australia ruled against it in March 2021.[63] The effects were almost immediate, setting off a wave of events that would eventually propel Greensill to its demise. Hours following the court's ruling and alarmed by the lack of insurance, Credit Suisse froze US$10 billion worth of Greensill funds,[64] setting off concerns that Greensill "could go bankrupt within days".[65] Greensill later attempted to secure insurance from other firms, but did not succeed.[66]

On 3 March 2021, BaFin froze the operations of Greensill Bank and filed a criminal complaint with prosecutors, alleging potential accounting manipulation.[67] The watchdog's forensic audit on Greensill Bank discovered that the company was "unable to provide evidence of the existence of receivables in its balance sheet that it had purchased from the GFG Alliance Group".[68] Later that month, it filed a bankruptcy petition for Greensill Bank and determined that compensation was payable to its depositors as it was no longer able to repay all of its customers' deposits. Insolvency proceedings were also initiated against Greensill Bank with the Amtsgericht Bremen, the District Court of Bremen.[69]

Grant Thornton was then appointed as Greensill's liquidator. On 22 April 2021, creditors of Greensill Capital Pty Ltd – the parent company of the Greensill Group – voted to liquidate the company. In response, Grant Thornton said: "The liquidators will continue to identify and realise available assets, monitor developments in relation to the administrations of Greensill UK and the Greensill Bank AG, and continue their investigations in relation to Greensill Capital Pty [Ltd]." The vote came as prosecutors in Bremen raided the offices and homes of Greensill bankers suspected of possible wrongdoing.[70]

Fake it until you make it

> "A condition of our facilities… is that they must do business with the customer. They must have a history to support that, and the data to support that."
>
> *– Lex Greensill, giving evidence to the U.K. parliament's Treasury Committee*[71]

Grant Thorton was unable to verify a number of invoices used to raise funding from Greensill, which were allegedly “issued by companies that said they had never traded with Gupta’s Liberty Commodities”.[72] It was reported that some invoices underpinning loans to Liberty Commodities were based on “prospective receivables” which business “confidently anticipated” – speculative transactions which had not occurred and might never occur.[73]

However, Lex Greensill stepped in and denied Gupta’s description of the future receivables program.[74] Greensill’s claims are purportedly supported by Grant Thorton’s findings – that Gupta’s invoices appeared to have no relation with hypothetical future trading activity. In particular, the invoices included exact dollar amounts for individual transactions, as opposed to rounded estimates, besides details of specific warehouses that goods would be shipped to. These characteristics are usually indicative of real trades more than any form of forecast activity. Most critically, the invoices were dated in the past, suggesting invoices for accounts receivables instead of future receivables and thus revenue must have been captured. Further documentation provided by Credit Suisse revealed that Liberty Commodities did not have a future receivables financing line.[75]

This was a different case from Bluestone, where a significant portion of Greensill’s debt was backed by predictions of future sales rather than actual invoices.

Seeking justice

Bluestone is a coal-mining company based in West Virginia owned by West Virginia governor Jim Justice. While Bluestone was not Greensill’s largest client, its acquired debt between 2018 and 2021 had amounted to US$850 million.[76] The coal-mining company was unable to repay its debts when pressured by Greensill for accelerated payments of its loans. Furthermore, the governor’s family had signed personal guarantees for the money loaned, with US$780 million borrowed under “prospective receivables” based on existing customers as well as entities “that were not and might not ever become customers of Bluestone”. Not only did this arrangement threaten the viability of the company, but also the Justice family’s fortunes.[77]

Greensill and Bluestone operated on a “cashless roll”, whereby Bluestone would only pay fees and interest with no money changing hands. Greensill would advance Bluestone US$15 million at a time for “prospective receivables”, and every few months, Greensill would “roll” these loans and provide Justice with new monies to pay off old advances.[78] To Bluestone, this signified a form of de facto long-term financing. On Greensill’s end however, such funds were given the same treatment as other short-term funds – they were packaged into notes and sold through Credit Suisse funds.[79]

In February 2021, Greensill demanded that Bluestone accelerate the return of its borrowed money and give Credit Suisse US$300 million by the end of the third quarter of 2021. Justice claimed that this was the first time the Swiss bank was brought up in discussions with Greensill.[80] Instead of doing as they were told, in March 2021, Bluestone sued Greensill for alleged fraud "under the guise of establishing a long-term financing arrangement".[81] According to Bluestone's lawsuit, it had borrowed US$70 million from Greensill based on actual invoices, while the remaining US$780 million credit was based on future sales that had not materialised yet.[82]

Bluestone was also chased by Credit Suisse, which was pressured by clients to recover its lost monies. Justice and Credit Suisse reportedly discussed ways to sort out the Bluestone debt from July 2021.[83] Over a year later, in June 2022, Bluestone signed an agreement with Credit Suisse to start repaying the Swiss bank's clients the amount owed. The Justice family also agreed to share the proceeds of any sale of the business with Credit Suisse clients. The settlement was arrived at after year-long talks between Credit Suisse negotiators and the Justice family.[84]

Credit squeeze

> "Clearly they didn't do their due diligence...If Credit Suisse was doing its job properly there is no way that they could not have identified these problems."
>
> – *Scott Levy, Chief Executive of Bedford Row Capital*[85]

Despite freezing US$10 billion in client funds linked to Greensill in March 2021, Credit Suisse did not get out of the Greensill fiasco unscathed. Prior to Greensill's downfall, Credit Suisse bought the supply chain finance firm's packaged securities, and touted and sold its supply-chain finance funds as "among the safest investments it offered", as the loans were backed by invoices "usually paid in a matter of weeks". However, as the funds grew larger, they diverged from what was marketed and "much of the money was lent through Greensill against expected future invoices".[86]

After the collapse of Greensill, it was reported that US$7.3 billion worth of funds had been collected, while the remaining amount of US$2.3 billion was allegedly difficult to recoup. The bank identified the amount as linked to three debtors, namely GFG Alliance, Bluestone, and SoftBank-backed construction startup Katerra Inc. (Katerra).[87] Despite anger from clients, the Swiss bank decided it would not make up the shortfall, partially because it feared such a decision would set a precedent.[88]

Credit Suisse commissioned a report into its failings in relation to the Greensill saga, conducted by Swiss law firm Walder Wyss and accounting firm Deloitte.[89] However, in February 2022, it was reported that the Swiss bank decided to keep the report under wraps. The Greensill report was shared with the Swiss Financial Market Supervisory Authority, but the bank's board decided not to publish the full report as it was "wary of releasing too much information that could harm it in potential lawsuits or insurance claims" while it sought to recover Greensill-linked funds.[90]

Two months later, in April 2022, Credit Suisse said an internal review determined that the reputational damage and economic losses from the Greensill saga could have been averted if certain managers and employees had conducted themselves "more appropriately". After Greensill's downfall, Credit Suisse dismissed 10 people and clawed back remuneration amounting to US$43 million.[91]

In July 2022, Credit Suisse informed clients that its effort to recover the lost monies was expected to cost US$291 million, and might take as long as five years of legal battles and contested insurance claims. Investors were not pleased with the news, with one investor saying: "It's devastating that the investors are paying for all these expenses that are based on a mess up by Credit Suisse."[92]

In August 2022, Credit Suisse stepped up its legal claim against SoftBank in an attempt to recoup US$440 million on behalf of its clients that it had lent to Katerra – a U.S. construction group backed by SoftBank's Vision Fund which subsequently filed for bankruptcy – through Greensill.[93] This was following the Swiss bank's initial legal action launched against SoftBank in December 2021.[94] Credit Suisse alleged that SoftBank masterminded a financial restructuring of Katerra that benefited the Japanese group at the expense of the Credit Suisse's clients. However, SoftBank denied the claim.[95]

Political lobbying

> "My view is that what I did was I made a choice to work for a business which I hoped would be the U.K. fintech success story – and many people believed that it would – and I wanted to help that company grow and expand."
>
> *– David Cameron, former U.K. Prime Minister*[96]

David Cameron, the former Prime Minister of the U.K., was once a pioneer advocate of transparency in political and corporate lobbying. Cameron's 2010 campaign saw him vow to eradicate "secret corporate lobbying" which he claimed was "undermining public confidence in the political system".[97] Furthermore, under his leadership as U.K. Prime Minister, the Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014 was introduced.[98] However, he was embroiled in questionable lobbying tactics with Greensill and was heavily criticised for his "lack of judgment" as a result.[99]

The history of Lex Greensill and David Cameron dated back to 2011 when Lex Greensill was brought in as a government advisor by then cabinet secretary, Jeremy Heywood. The following year, in 2012, Greensill helped the Cameron government implement a new supply chain finance initiative. In 2014, the Cabinet Office recruited Lex Greensill as a new "crown representative" to help tackle the issue of "wasteful contracts" and ensure that suppliers "provide the best value for money".[100] Following Cameron's resignation in June 2016 after losing the European Union referendum, the former U.K. Prime Minister joined Greensill as an advisor in 2018.[101]

In 2020, while acting on behalf of Greensill, Cameron allegedly sent text messages to Chancellor Rishi Sunak and other top government officials to persuade them to include Greensill in the Covid Corporate Financing Facility, a state-backed pandemic lending program.[102] Between 5 March and 26 June 2020, Cameron and his staff reportedly sent 45 emails, texts and WhatsApp messages regarding Greensill to government officials.[103] He was later reported to have lobbied the Bank of England as well. This was despite the fact that Greensill was ineligible for the joint Treasury-BOE support program as financial firms were excluded for the program.[104] Greensill and Cameron were ultimately unsuccessful in their lobbying attempts.[105]

In June 2020, Greensill had been approved as a lender under the government-owned Coronavirus Large Business Interruption Loan Scheme (CLBILS) – set up in response to the economic challenges faced by companies due to the COVID-19 pandemic – allowing it to issue CLBILS loans of up to £50 million (US$67 million). The company attempted to persuade the Treasury to increase the limit on the loans it could provide under the scheme to £200 million (US$267 million).[106] The Treasury denied its request, stating that the increase would represent "significant exposure". Nonetheless, through the program, Greensill was still able to lend "hundreds of millions of pounds through multiple loans" to Gupta-linked companies.[107]

The National Audit Office later launched an investigation into whether Greensill's access to the scheme had created any risk to public funds and how the company's accreditation to CLBILS was approved.[108,109] It was concluded that in its accreditation of Greensill, the British Business Bank had undertaken a "streamlined" accreditation process "in response to the policy need to deliver money to businesses at pace during the pandemic".[110]

Cameron has since justified his lobbying efforts, citing that he had a "big economic investment in the future of Greensill".[111] However, Treasury Committee Chairperson Mel Stride rebutted Cameron's claims, stating the ex-prime minister was motivated to engage in lobbying as he perceived that his "opportunity to make large amount of money was at risk".[112]

Money talks

The spotlight was also cast on Cameron's remuneration during his stint at Greensill, as he stood to make about US$10 million in total from Greensill. He received a salary of US$1 million a year as a part-time advisor, was paid a bonus of US$700,000 million in 2019, and was due to be paid US$4.5 million after tax for a portion of Greensill shares.[113] Angela Rayner, deputy leader of the opposition Labour Party, said that it was "utterly ludicrous" that he had earned a large sum.[114]

Cameron's political lobbying scandal raised concerns over corporations' ability to recruit and utilise former government officials to seek exclusive access to government schemes. Calls have been made to reform the U.K.'s lobbying policies, for the implementation of stricter regulations on ex-officials entering the private sector, and for the transparency of lobbyists to be strengthened.[115,116]

Lobbying down under

Julie Bishop, Australia's former Minister for Foreign Affairs from 2014 to 2018 and deputy leader of the Liberal Party also made headlines regarding her role as special advisor to Greensill. She reportedly received an annual salary of US$800,000 as Greensill's board advisor.[117] It was reported that Bishop "was not registered as a lobbyist when she was clearly lobbying the government".[118] Bishop was said to have personally approached then Australian Treasurer Josh Frydenberg's office on behalf of Greensill seeking information about the government's small and medium enterprise scheme.[119]

Aftermath

The Greensill saga brought to light the risks in supply chain finance. Observers have opined that Greensill's demise might prove to be the sector's blessing in disguise if it learns from the lessons and implements safeguards, to pave the way to more sustainable and transparent growth.[120]

Although the initial reaction towards Greensill's demise was that "a fatal loss of confidence" in supply chain finance could arise, starting a "domino effect" of investors withdrawing their funding,[121] market activities in the latter half of 2021 suggested that the market impact of Greensill had been curbed by evidence that the company was an outlier which operated "a significantly riskier form of lending than traditional supply chain finance."[122] Mark Ling, head of trade and supplier finance at Banco Santander SA, commented that the wider market acted "very, very quickly" to replace supply chain funds after Greensill's collapse. It was reported that existing lenders ramped up their supply chain finance capabilities and new players were keen on entering the market. For example, in October 2021, Mastercard Inc. and Standard Chartered PLC introduced new supply chain finance offerings to meet the increase in demand.[123]

A market aberration?

Many observers were of the view that Greensill's collapse was a market aberration[124,125] – it diverged from traditional supply chain finance into "more exotic long-term financing structures", operated with a lack of transparency and controls, and managed its products in a way that "allowed questionable practises to pass unnoticed".[126]

In theory, short-term loans such as those involved in traditional supply-chain finance should be considered low-risk. Furthermore, in traditional supply chain financing, lenders would typically rely on their own balance sheet to finance payments.[127] However, Greensill deviated from the roots of supply chain financing and added more complexity by slicing and dicing its bills and invoices and packaging them into bond-like investments for sale to investors looking for an opportunity to obtain better returns, thereby relying on external investors.[128]

In July 2021, a U.K. parliamentary inquiry into the Greensill scandal concluded that its collapse did not demonstrate "a need to bring supply chain finance within the regulatory perimeter for financial services".[129] That being said, it acknowledged that the scandal "highlighted risks around the growth of the non-bank sector and the expansion of non-banks into areas of financial intermediation traditionally dominated by banks".[130] Treasury Committee Chairperson Mel Stride said that the inquiry concluded that there are "a number of lessons for the operation of our financial system", including urgent reforms around bank acquisitions and other regulatory arrangements.[131] The report also recommended that there should be a reform of the Change in Control process which "regulates who can acquire ownership of an existing bank, to ensure that the Prudential Regulation Authority (PRA) has powers to ensure that existing banks do not fall into the hands of owners who would not be granted a banking licence in their own right".[132]

In response to the Treasury Committee's report on 'Lessons from Greensill Capital', the U.K. Government, Financial Conduct Authority (FCA), and Bank of England (BoE) have noted the recommendations. U.K. chancellor Rishi Sunak said that the Treasury was working with both the FCA and the PRA and the government was "committed to ensure [it] learn[s] any wider lesson from this episode".[133]

A long recovery ahead

Following Greensill's insolvency, Softbank wrote down US$1.5 billion of its investments in the company at the end of 2020.[134] This marked yet another high-profile loss for Softbank and its Vision Fund following the WeWork fiasco in 2019.[135]

In May 2021, the U.K. Serious Fraud Office (SFO) launched an investigation into suspected fraud, fraudulent trading and money laundering in relation to the financing and conduct of the business of GFG Alliance, which included its financing arrangements with Greensill. A year later, in April 2022, it was reported that the SFO had stepped up its probe into GFG Alliance, with SFO officers arriving unannounced at premises to seek access to documents.[136] This followed a raid of the Paris offices of GFG Alliance by the French police in the same month. Earlier in 2021, the Paris Prosecutor's Office launched a similar investigation into Gupta's French operations.[137] Investigations are ongoing. In June 2022, Liberty Steel reached a standstill agreement with Greensill Bank AG on debt facilities relating to its European steel operations, giving it "much-needed breathing space" to refinance its debts. Gupta has been trying to secure fresh financing for GFG Alliance since Greensill's collapse but has yet to secure a long-term alternative at the time.[138]

It seems like the "most spectacular collapse of a global finance firm" in over a decade[139] had left behind many casualties.

Discussion questions

1. Explain what is supply chain financing and why it has grown in popularity. What are the benefits and risks of supply chain financing from a business and accounting standpoint?
2. Are current disclosure standards sufficient in the supply chain financing industry? Do accounting standards sufficiently address how supply chain financing components should be recorded in companies' books? If not, what are the risks involved in the current standards and how can they be further reinforced?
3. What factors contributed to Greensill Capital's collapse? Should the investment banks and insurance firms bear the most responsibility? Explain.
4. GFG Alliance played a key role in both Greensill Capital's rise and collapse. Do you think Greensill Capital would manage to survive if it did not have such a high exposure to GFG Alliance? Discuss.
5. Both David Cameron and Julie Bishop were former politicians who lobbied for Greensill Capital with the U.K. and Australian governments respectively. Discuss the potential issues of former politicians turned corporate lobbyists and propose measures to encourage greater transparency.
6. What is the role of financial regulatory authorities such as Germany's Federal Financial Supervisory Authority (BaFin)? Do you think BaFin fulfilled its role as a financial regulatory authority in the Greensill saga?
7. Why do you think SoftBank and its founder Masayoshi Son invested so heavily into Greensill Capital? Do you think it learnt its lesson from the fall of WeWork? Where did SoftBank go wrong this time?

Endnotes

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