

Steinhoff scandal raises thorny issues

The Steinhoff accounting scandal has raised concern on a number of levels, from the quality of corporate governance to checks and balances in the investment management business and even race relations in SA, writes [Legalbrief](#). Two separate articles on [The Conversation](#) site explore the gaps exposed by Steinhoff's fall from grace and also the lessons to be learnt from the debacle that threatens to wipe out billions of rand belonging to SA investors. Interviewed in the first piece, Jannie Rossouw, head of the School of Economic & Business Sciences at Wits University, notes: 'The Steinhoff scandal is disturbing because it **points to a serious gap in the checks and balances in the investment management space**. A scandal of this magnitude should not have occurred if the systems with their multiple layers were working. This includes auditors, asset managers and non executive directors who in their different roles should ensure that the company's accounts are as close to the truth as possible.' Rossouw asks why most fund and asset managers in SA and across the globe, which draw enormous fees, failed to pick up the alleged irregularities. He notes that every time a major scandal surfaces, regulatory gaps are identified and new measures are put in place to plug the apparent holes. But the scandals keep coming. He notes, however, that it's impossible to regulate for integrity and ethical behaviour. 'The one effective way that behaviour can be changed is through legal process and by means of tough punishment.'

The scandal would do SA a huge service if it made the point that corruption and mismanagement have nothing to do with race, Steven Friedman, professor of political studies at the University of Johannesburg, notes in a second article on [The Conversation](#) site. Friedman says it would also help if it alerted everyone in the marketplace to **watch as carefully over private companies as they do over government departments**. He writes: 'But, given how entrenched racial attitudes are, it is more likely that it will be dismissed as a once-off freak by those who assume that white-led business is always competent and as further evidence of white prejudice by black people reacting to the label often stuck to them. If that happens, some private businesses will continue to get away with behaviour which would never be tolerated in government.'

Steinhoff's woes continue to pile up. A [Fin24](#) report says Steinhoff International Holdings, the group's Amsterdam-registered parent company, announced last week in an investor update that **more of its already-published financial results would need to be restated and could not be relied on**. Steinhoff last month said that its 2017 audited results had been put on hold while PwC conducts an independent investigation into 'accounting irregularities'. It has also previously warned investors to not rely on the figures contained in its 2016 results. Last week, it added the 2015 financial results of Steinhoff International Holdings Propriety Limited, the conglomerate's former listed umbrella holding company, could not be relied on.

How former Steinhoff CEO Markus Jooste left his mentor and business partner Christo Wiese on the hook for more than R200m is detailed in a [Moneyweb](#) report. It says the papers filed before the Western Cape High Court last month by Absa bank to have Jooste's Mayfair Speculators liquidated reveal how **he removed nearly all the assets from the company before leaving Wiese on the hook for more than R200m**. The report notes that in December 2016, Mayfair, represented by Jooste's son-in-law Stefan Potgieter, and Absa concluded a financing arrangement, which saw the bank providing Mayfair with an overdraft facility amounting to R335.6m and bank guarantees of a further R14.4m (in total R350m). Matter unravelled quickly following the upheaval on 6 December last year, when Jooste resigned as CEO. The Steinhoff share price collapsed, leaving Mayfair in breach of its loan agreement. [Moneyweb](#) says the court papers reveal that Upington Investment Holdings, Wiese's investment vehicle for his share in Steinhoff, stood behind any and all Mayfair's obligations up to R350m.

The liquidation hearing was postponed to later this month, after Judge Siraj Desai ruled that the matter needs a full hearing, as it of 'great importance' for several parties. In court papers supporting the liquidation application, Absa accuses Jooste and Stefan Potgieter, his son-in-law and currently the sole director of Mayfair Speculators, of 'naked fraud' following representations made to Investec and the transfer of assets from Mayfair Speculators to its holding company, notes a report in [The Citizen](#). **The court papers suggest that Mayfair Speculators owes three banks more than R1.2bn**. Absa claims R226m, while Investec and Sanlam are owed R250m and R800m respectively, the report notes. It says these loans were secured by Mayfair Speculators' holding of Steinhoff shares. The banks have now called up these loans after Steinhoff's shares fell from around R60 to less than R5 in recent weeks, following one of the largest ever corporate scandals in SA.

Steinhoff is racing to plug a €200m funding gap in the next few days, sources close to the negotiations said, according to a report on the **BusinessLIVE** site. Steinhoff last month admitted 'accounting irregularities' as it built a debt-fuelled empire stretching from Poundland in Britain to Mattress Firm in the US. **The admission wiped about \$15bn or 85% off its market value.** The report notes that in talks with creditors, Steinhoff had conceded it has a funding gap of €550m, the sources said, adding that deals that had already been struck or were imminent brought the total down to about €200m. Kika-Leiner, with annual sales of about €800m in Austria and eastern Europe remains the unit with the single largest financing gap, even after selling €50m worth of property, the sources said, according to the report. A private company jet, which may fetch about €15m, is also up for sale.

The European Central Bank sold its bonds of Steinhoff last week, potentially losing more than half the amount it had invested, notes a report on the **Moneyweb** site. It says the ECB **was facing the risk of having its investment wiped out or converted into shares.** At one point last week, Steinhoff's bond was worth as little as 45% of the value at which it was issued last July, when the ECB bought it, according to the report. But the credit, which was still part of the ECB's holdings on 2 January, no longer featured on a list of published on Monday. The ECB does not disclose the price at which it buys or sells its investments.