Dear Nicky,

Thank you for your letter of 19 March in relation to London Capital and Finance (LCF).

I can assure you that the Government takes very seriously the failure of LCF and is closely monitoring current developments. In January 2019, the Financial Conduct Authority (FCA) commenced an investigation into LCF's promotions. Separately, on 18 March, the Serious Fraud Office, working in conjunction with the FCA, announced it had opened an investigation into individuals associated with LCF. It would be inappropriate for the Government to comment further on these investigations whilst they are ongoing.

I note that Charles Randell wrote to you on 21 March, confirming that the FCA Board will meet later this week to consider what further action the FCA may take to investigate this matter, including whether the conditions for an investigation under s. 73 of the Financial Services Act 2012 are met. I will therefore await the FCA Board’s decision before deciding on what further action may be required.

Turning to your question on the regulation of mini bonds, under section 22 of the Financial Services and Markets Act 2000, a person (whether an individual or a firm) must be authorised to carry out a regulated activity, as defined in the Regulated Activities Order 2001 (RAO). It is not a regulated activity for firms to issue their own securities – including debt securities such as mini bonds – due to an exemption within the RAO. This exemption exists to ensure that companies in the real economy can raise finance to fund their business without having to become an FCA authorised firm. A decision to regulate the issuance of mini bonds would require careful consideration of the impact that amending this exemption could have across all firms, as well as the broader implications for the UK regulatory perimeter, which is deliberately activity – rather than product – based.
However, it is important to note that the marketing and promotion of mini bonds are already subject to financial promotions restrictions as set out in Section 21 of the Financial Services and Markets Act 2000 (FSMA) and the FSMA (Financial Promotion) Order 2005. This legislation provides that financial promotions for mini bonds must be approved by an FCA authorised firm, who must ensure that the financial promotion is clear, fair and not misleading to investors. Failure to comply with these requirements may result in enforcement action by the FCA against the firm authorised to approve the content of financial promotions.

HM Treasury is committed to keeping the regulatory framework for financial services under review and to update it as necessary. As Charles Randell raised in his letter to you, the Treasury, in conjunction with the FCA, is already considering the questions raised by the LC&F failure in respect of the regulatory framework for mini bonds.

I am copying this letter to the Chair of the FCA.

with very best regards

JOHN GLEN