



# Treasury Committee

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Mr Charles Randell CBE  
Chair, Financial Conduct Authority  
FCA Head Office  
12 Endeavour Square  
London E20 1JN

19 March 2019

Dear Charles

As you will be aware, London Capital and Finance (LC&F) recently went into administration. It had recently been the subject of regulatory intervention by the FCA.

LC&F's failure could have a significant effect on those invested in its products (so called mini bonds). It is widely reported that LC&F owed £236 million to mini-bond holders, and the Administrators have recently said that they believe the return to those mini-bond holders could be as low as 20% of the amount they invested. For many, this will have a significant effect on their life savings. This is especially true since support from the Financial Services Compensation Scheme may not be available.

The regulation of LC&F could appear convoluted to those unfamiliar with financial services. As the FCA itself states "issuing mini-bonds does not normally involve the carrying on of a regulated activity. Therefore, LC&F did not need to be authorised to issue the mini bonds but did need to be authorised to issue the promotion of the mini bonds". One of the concerns expressed by the FCA in its second supervisory notice to LC&F was around the undue prominence given to the firm's FCA authorisation despite the bonds not being regulated or having FSCS protection. This concern was also expressed in evidence to us by Andrew Bailey, who noted that:

As you know, we [the FCA] authorise activities. We give permissions for activities, strictly speaking, and we come across firms that, in their presentation of their authorisation, give the impression that they are authorised for absolutely everything they do, whereas in fact what they do is mostly not regulated, and they have a small authorisation somewhere, but they give the impression to consumers that they are authorised. That is a source of great concern to me, because people are being misled by this.

I am therefore requesting that the FCA Board consider whether the failure of LC&F, the potential harm to those consumers involved, and the regulatory system that led us here, warrants an investigation under Part 5 of the Financial Services Act 2012. Section 73 imposes a "Duty of FCA to investigate and report on possible regulatory failure".

Section 73 imposes two tests on whether the definition has been reached, and the FCA's own policy document *How the Financial Conduct Authority will investigate and report on regulatory failure* from April 2013 provides further guidance on what constitutes those tests. The decision on activating such an investigation under Section 73 is made by the FCA Board, and I would therefore welcome the Board's assessment of whether those tests have been met.

Even if the FCA's board determines that those statutory tests are not met, I believe the failure of LC&F has raised questions that need further consideration. I would therefore welcome the Board's view on:

- Whether the FCA acted swiftly enough in its supervisory action against LC&F
- Whether other firms are using their authorisations in a way that may be misleading to consumers
- Whether more should be done to clarify to consumers the extent to which an FCA authorisation may protect them from harm
- Whether changes to the regulatory system are warranted to bring mini bonds into the perimeter of regulation

As well as copying this letter to the Economic Secretary to the Treasury, I will be writing to ask for the Treasury's view on this matter, given its responsibilities around the perimeter of regulation.

I will be placing this letter, and in due course, your reply, in the public domain.

Yours sincerely  
Nicky Morgan

Rt Hon Nicky Morgan MP  
Chair of the Treasury Committee