

Rt Hon Nicky Morgan MP
Treasury Committee
House of Commons
London
SW1A 0AA

2 April 2019

Dear Nicky,

Retail Mini-Bond Regulation and London Capital & Finance

I wrote to you on 1 April to inform you that the FCA Board had decided that an independent investigation should be commissioned into:

- whether the existing regulatory system adequately protects retail purchasers of mini-bonds from unacceptable levels of harm; and
- the FCA's supervision of London Capital & Finance (LC&F).

In your statement yesterday, you asked for further explanation of the FCA Board's decision that this review should be commissioned under section 77 of the Financial Services Act 2012 and specifically why the FCA "required Treasury's help" to commission this investigation. I do not believe that this is the correct interpretation of the position, and so given the public interest in this issue and to avoid any further confusion I thought it would be helpful if I wrote now setting out more fully the rationale for the Board's decision.

At its meeting on 28 March 2019, the Board considered the progress of the factual investigations in relation to LC&F, the question of the sale of mini-bonds more generally and the scope of the two sections under which a statutory review could be commissioned. While section 73 only concerns events which have occurred in relation to a regulated person, section 77 is more suited for a broader investigation in the public interest which addresses the activities of both authorised and unauthorised persons.

The Board decided that a statutory investigation should be commissioned without delay. In reaching its decision (in which executive members of the Board did not participate), the Board noted that section 73 is not well suited to consider the broader public interest questions which arise in relation to the issue and sale of mini-bonds by unregulated firms: including whether the FCA's powers through the existing financial promotions regime are adequate to prevent unacceptable levels of consumer harm in this area.

The Board recognised the risk that additional regulation directed only to authorised firms that issue unregulated mini-bonds may cause this activity to migrate further to purely unregulated entities. The Board noted that there was a significant risk of harm to consumers from these unregulated activities and considered that any investigation should examine the LC&F case in the context of these broader questions, including those posed in your letter of 19 March 2019.

Further, following a full discussion, the Board's view was that, at the time of its meeting, it was not yet clear that the conditions of section 73 of the 2012 Act were met. This was in part because the factual investigations in relation to LC&F were not sufficiently complete.

The Board therefore agreed that the FCA should immediately invite the Treasury to direct the FCA to commission a review into the regulation of mini-bonds and the failure of LC&F under section 77 on grounds of the public interest.

I hope you will find this information helpful. I will of course be available to answer any further questions you have about the Board's decision.

I have already been speaking to potential reviewers and am today doing further work on terms of reference to propose to the Treasury. I am determined that this investigation asks the right questions, that it gets under way without delay and that it gives answers as quickly as possible.

Yours sincerely,



Charles Randell
Chair, Financial Conduct Authority