



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Rt Hon Nicky Morgan MP
Chair of the Treasury Select Committee
Committee Office
House of Commons
London
SW1A 0AA

24th June 2019

Dear Nicky,

I am writing to update you on HM Treasury's (HMT's) response to the failure of London Capital & Finance (LCF).

As you know, on 23 May I directed the Financial Conduct Authority (FCA) to begin an investigation into the circumstances surrounding the collapse of LCF and the FCA's supervision of the firm. I have approved the appointment of Dame Elizabeth Gloster to conduct this investigation.

Alongside this, I also announced that HMT would review the wider policy questions raised by the case of LCF. These relate to the regulatory and tax treatment of the investment products LCF issued. While these products are often known as "minibonds", for the sake of precision I refer below to non-transferable debt securities issued by companies to consumers.

Now that plans for the policy review are more developed, I would like to provide more detail on the two strands of work HMT will undertake – collaborating with the FCA and HM Revenue and Customs as appropriate.

1. Review of policy on non-transferable debt securities

The Treasury will consider the regulatory arrangements currently in place for the issuance of non-transferable debt securities issued by companies to consumers – and similar products – including the financial promotions regime which governs the marketing of those investments. This will be supported by broader research into these investments and their role in the economy.

This work will examine:

- The size and economic value of this market in the UK, including how this has changed in recent years
- The investors active in this market, including their characteristics and the factors that influence their decisions

- The routes through which investors access this market and the information available to investors through financial promotions and other material
- The companies that access this market to raise capital, including the reasons why they choose to issue a non-transferable debt security (over other types of securities) and what this capital is used for.

The Treasury will consider whether the current regulatory regime for these securities issued by companies to consumers is appropriate. This will include reviewing the appropriateness of:

- The current regulatory regime for such securities issued by both authorised financial services firms and non-authorised firms
- The existing protections in place for consumers investing in these securities, including financial promotion rules
- Other investor protection measures relevant for this market.

The review will take account of the investigations into LCF's failure already underway.

2. Assessment of IF ISA rules

Innovative Finance ISAs (IF ISA) were introduced to provide ISA holders with greater choice and flexibility in their investments, while supporting the sustainable growth of peer-to-peer and crowdfunding sectors as a source of alternative finance for businesses. It is important that the regime functions effectively for consumers, ISA managers and the Exchequer alike.

The Treasury will therefore work with HMRC to review the tax rules for, and administration of, the IF ISA. Working with the FCA, the review will also look at the relationship of these rules to the wider regulatory framework for consumers and financial services firms.

Separately, a review will consider how the market for IF ISAs has developed since they were introduced in 2016 to ensure the IF ISA rules remain appropriate and have the right flexibility to respond to future market developments.

Once this work is completed, I will consider whether there should be any reform to the legislative framework. I expect that this assessment will be complete by early next year. In any case, I will update the committee on the progress of this work and on any decisions or consultations that arise from it.

I have deposited a copy of this letter in the House of Commons Library.

with very best regards

John

JOHN GLEN