

Nick Hurd MP

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Our Ref: MP605357

Mr Stephen Lloyd
Bates Wells Braithwaite London LLP,
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21 December 2012

Dear Stephen,

I would like to thank you for your contribution to the Red Tape Challenge, in particular for agreeing to act as sector champion for the Red Tape Challenge Social Investment Theme and for your report *Ten Reforms to Grow the Social Investment Market*.

As you know, I want to make it easier to invest in social ventures, whether that is buying shares in a local community shop, lending to a start-up social venture employing disadvantaged people through a new crowd funding platform, or investing alongside others in a dedicated social investment fund.

To help accomplish this we have reviewed the legal and regulatory barriers to social investment. As part of this review we are using the Red Tape Challenge to remove inconsistencies and omissions in the existing legal and regulatory framework that governs social investment.

We have undertaken or committed to a set of actions intended to improve how social investment is regulated in the UK.

On barriers relating to increased retail investment:

- We made amendments to the Financial Services Bill to ensure that the regulatory approach takes into account that consumers can have non-financial goals – for example, social goals
- We confirmed with the FSA that existing rules do not restrict advised sales of social investment products and will work together to find a suitable way of communicating this to the sector
- The FSA has provided a named contact to industry and other interested parties on matters relating to social investment
- We are working within Government to scope the potential benefits and structure of a 'social investor' exemption from Financial Promotions rules



On barriers relating to uncertainty around fiduciary duty:

- We have agreed with the Law Commission to undertake a review of issues relating to social investment by charity and non-charity trustees such as:
 - a) the obligations arising from fiduciary duties that dictate what considerations are appropriate for trustees and other intermediaries seeking to act in their clients' best interests
 - b) differentiation of investment duties to reflect the different nature of classes of trustees – for example, charity trustees taking account of social benefits that relate to the charity's mission

On barriers limiting investment into socially motivated organisations or funds, such as the suitability of available legal forms:

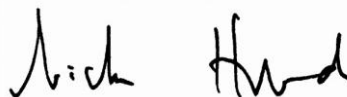
- We will undertake work through the Cabinet Office in 2013 to scope the potential for a pilot social investment fund, designed to be easy, replicable and as low cost as possible
- As part of the Red Tape Challenge on '*Challenger Businesses*', we committed to form a working group with representatives from across Government to monitor the current regulatory regime for peer-to-peer platforms and take a lead role in engaging the sector. We are also supporting the development of peer-to-peer lending platforms through the use of funds from the Small Business Tranche of the Business Finance Partnership.

We will continue to work with colleagues across government to create a legal and regulatory framework that will ensure a diverse and sustainable social investment market in the UK. As part of this, I am pleased that the Regulator of Community Interest Companies is undertaking a review of the dividend caps for CICs limited-by-shares to ensure that the CIC form continues to be an effective legal form for social enterprises, including those looking to take on investment.

I am copying in the Minister for Government Policy and the Minister for Business and Enterprise.

Thank you once again for your good work in supporting social investment and social enterprise.

Yours Sincerely,

A handwritten signature in black ink that reads "Nick Hurd". The signature is written in a cursive, slightly informal style.

NICK HURD