Responsible Finance Response: Financial Conduct Authority regulatory fees and levies: policy proposals for 2019/20, January 2019

Q8: Do you agree that we should extend our concessions on consumer credit fees for community finance organisations (CFOs) and credit unions (CUs) by exempting them from consumer credit fees?

Responsible finance providers (otherwise known as Community Development Finance Institutions - CDFIs) are professional social enterprises increasing access to fair finance across the UK. We re-invest profits to help more people and businesses access finance. We believe that even with income above £250,000 responsible finance providers are not on a level playing field with other commercial lenders. We therefore welcome the proposed extension of concessions on consumer credit fees for consumer finance organisations and credit unions, and feel it sends a strong message of support to the sector.

Paying for regulatory fees takes money from responsible finance provider's budgets in other areas of their businesses. These costs are ultimately passed on to the people they lend to. It also takes money from areas such as product systems development and marketing, stalling their expansion and hampering their ability to reach scale. Consumer credit fees place the largest burden on responsible finance providers, therefore the proposed exemption offers great benefit to CFOs. It will directly support the government's policy of improving the range of socially responsible choices available to vulnerable consumers.

In terms of similar concessions on the other levies the FCA collects, Responsible Finance proposes that the FCA also exempts CFOs from payment of the variable element of each of the levies. This is due to reasons outlined above regarding the not-for-profit structure and social purpose of community finance organisations.

In addition, the responsible finance sector seeks to maximise the benefit it provides to some of the most vulnerable borrowers in society, therefore anything that reduces regulatory cost will be of great value to the people we serve. As social enterprises working closely to support the aims of the Money Advice Service (MAS), responsible finance providers already contribute to enabling MAS in fulfilling its mission by improving the financial capability of vulnerable people. We believe this should be reflected in an exemption from the MAS annual fee.

Similarly, responsible finance providers are committed to a strong governance model that protects consumers, resulting in mitigating the risk of being unable to meet costs relating to claims against them. We therefore feel this should be reflected in an exemption, or partial exemption, from the FSCS base levy.

As highlighted in the consultation document, not all CDFIs are also CFOs. We believe there is a case for expanding the definition of a CFO. All members of responsible finance are mission-driven social enterprises. They treat customers fairly and are transparent, quality assured and professional. They must all comply with the Responsible Finance Code of Practice. We propose expanding the definition of a community finance organisation through parent company charitable status and/or golden shares.

Parent company charitable status: Some responsible finance providers are legally companies limited by guarantee or shares, but have a parent company that has charitable status. If the FCA could consider subsidiaries of CFO parent companies to also be considered CFOs this would be beneficial to some members. For example, Responsible Finance member Five Lamps ringfenced its CDFI lending activities into a company limited by guarantee to protect the rest of the company from the lending risk, however its parent company is a Charity. The trading company is a wholly owned subsidiary, with aligned mission, vision, and values, and is a member of Responsible Finance, however it is no longer classed as a CFO. We strongly contend that this justifies CFO status.

Golden shares: Golden shares can be used as a way to enshrine a social purpose within a corporate entity. It grants the golden shareholder the right of veto and control over the mission statement upon which the enterprise is founded. It can be set-up alongside an asset lock. By placing restrictions on the ability to transfer the golden share, it is possible to ensure that the guardianship remains in the hands of an organisation which puts social impact as its main focus. The holder of the golden share can be corporate or individual. It has to be an entity or person aligned with the social purpose of the business, not its economic success. Written in the golden shareholder's articles or trust will be that they will not allow the misuse of assets, and will use their vote to block it.

About Responsible Finance

Responsible Finance is the trade body for responsible finance providers (also known as community development finance institutions (CDFIs)). Responsible finance providers promote prosperity and address inequality by empowering people to take control of their financial futures. They offer loans and support to businesses and individuals who find it difficult to access finance from commercial banks.

Responsible Finance's mission is to support the development of a thriving and sustainable sector that provides finance for underserved communities and, as a result, contributes to the increasing economic growth and prosperity of these communities.