

21 September 2006

FAO John Hanlon
The CIC Regulator
CIC Team
Room 3.68
Companies House
Crown Way
Maindy
Cardiff CF14 3UZ

Dear Mr Hanlon,

**Treatment Under Financial Promotions Regulations
Industrial & Provident Societies vs Community Interest Companies**

On Thursday 7 September 2006 you attended a meeting organised by RISE in Taunton. At the meeting you met Tim Crabtree, who is involved with the Wessex Reinvestment Trust Financial Mechanisms project.

You specifically asked Tim to arrange for a letter to be sent to you setting out the background on the exemption from the financial promotions regulations enjoyed by Industrial & Provident Societies, and Tim has asked me to write to you in this respect.

My role in the Wessex Reinvestment Trust Financial Mechanisms project is to identify the most suitable vehicles through which to raise social investment and develop rules, prospectuses etc to support that.

I spent much time considering various investment vehicles, open-ended, closed-ended, equity, bond etc. In the end, given the organisations and social enterprises that we are trying to help in raising investment, and their lack of financial resource (many relying heavily on volunteers), it became clear the main driver for the choice of vehicle was cost.

Whatever it was, it had to be cheap to set up, and cheap to raise money through. This then focused our minds on the financial promotions regulations under the Financial Services & Markets Act 2000 ("FSMA"), which added a seemingly unavoidable layer of cost of between £40,000 and £80,000 to any invitation for investment through 'due diligence requirements' and related work.

This layer of cost presently exists for Community Interest Companies seeking investments.

Fortunately for us, one of our colleagues (Bob Paterson) had been involved in the prospectus launch for Fair Finance, an Industrial & Provident Society in the East End of London. The launch was particularly relevant as it set a precedent post FSMA for an Industrial & Provident Society to solicit investments in a manner that was exempt from the financial promotions regulations. I have attached for your reference a copy of the Fair Finance prospectus.

The key part of this document for me is to be found on page 14 of the Prospectus, and it is the text under the heading "Legal and Capital Information". In particular, the first line in the second paragraph states:

“Pursuant to article 4 of the Financial Services and Markets Act 2000 (Exemption) Order 2001....”

You can refer directly to the wording of the Financial Services and Markets Act 2000 (Exemption) Order 2001 by going to the following weblink: <http://www.opsi.gov.uk/si/si2001/20011201.htm>

Article 4 is titled “Persons exempt in respect of accepting deposits”.

Under article 4 it essentially says that anyone / anything listed in Part II of the schedule is exempt from general prohibitions in respect of the regulated activity of accepting deposits.

Under Part II of the Schedule, number 24., it says "an industrial and provident society, in so far as it accepts deposits in the form of withdrawable share capital."

So, as long as an Industrial & Provident Society prospectus is about taking deposits in return for withdrawable share capital, we can get around most of the regulatory due diligence requirements (and huge related cost) normally associated with a prospectus.

The main emphasis remains that a prospectus must be true, fair and not misleading and it must outline the risks to investors, which the Fair Finance prospectus does.

In summary, an Industrial & Provident Society is presently the most effective vehicle for raising funds for social / community / environmental projects as it can:

- raise money via borrowing / loans
- raise money via grants from charitable foundations / grant awarding bodies
- raise money via soliciting social investments in return for ‘withdrawable’ share capital in a manner that is exempt from the financial promotions regulations under FSMA

Community Interest Companies will by comparison always be the ‘poor relation’ until common sense prevails and they are given broadly the same treatment, either by including them also under Part II of the Schedule of the Financial Services and Markets Act 2000 (Exemption) Order 2001, or by some other means.

We wish you the very best of luck in your discussions with the FSA and other bodies and hope this letter will serve to help you achieve a similar exemption for Community Interest Companies.

If you have any queries, please do not hesitate to contact me on 01823 324432, or by e-mail on robin@towersoftaunton.co.uk

Yours sincerely,

Dr R W Keyte APFS

Enc.



COMMUNITY
INTEREST
COMPANIES



Dr R W Keyte APFS
The Post House
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Tauton
Somerset
TA1 1SA

Date 22 September 2006

Dear Dr Keyte

**TREATMENT UNDER FINANCIAL PROMOTIONS REGULATIONS
INDUSTRIAL & PROVIDENT SOCIETIES VS COMMUNITY INTEREST
COMPANIES**

Thank you for your letter dated 21 September 2006 concerning the background on the exemption from the financial promotions regulations enjoyed by Industrial and Provident Societies.

I have raised this with the Sponsor department with responsibility for the community interest company legislation. I am very grateful to you for taking the time and effort to produce such a comprehensive explanation and elaboration of the point made at the Taunton event.

Yours sincerely,

A handwritten signature in black ink, appearing to read "J. Hanlon".

JOHN HANLON
Regulator
Community Interest Companies