

Lord Myners CBE
House of Lords
London
SW1A 0AA

22 August 2019

Our Ref: SA190724A

Dear Lord Myners,

RE: Collateral (UK) Ltd (in liquidation)

I have been asked to respond directly to you regarding the four parliamentary questions tabled by you on 23 July 2019 in respect of Collateral (UK) Limited (Collateral). The questions were as follows:

To ask Her Majesty's Government when they first became aware that Collateral (UK) Limited was acting without authorisation from the Financial Conduct Authority (FCA); and why that company was allowed to take new client money without advising clients that the firm was not authorised by the FCA.

To ask Her Majesty's Government whether they or the Financial Conduct Authority (FCA) have investigated the change of name on the FCA register of authorised parties of Regal Pawnbrokers Limited to Collateral (UK) Limited; whether they identified any concerns about that change in respect of Collateral (UK) Limited; and if so, when.

To ask Her Majesty's Government whether any action was taken to protect (1) documents of, and (2) client money in, Collateral (UK) Limited when they were made aware that that firm was acting without the authorisation of the Financial Conduct Authority; and if not, why not.

To ask Her Majesty's Government whether they were aware that Collateral (UK) Limited advertised itself as having interim authorisation from the Financial Conduct Authority (FCA) when this was not the case; whether the FCA has taken any action against that firm, its shareholders or directors; and what assessment they have made of whether that firm continued to raise money from investors after the Government were made aware of it falsifying its authorisation.

Background

For approximately two years, until 26 February 2018, Collateral operated a peer-to-peer lending platform, facilitating loans secured against property (both land and valuable items such as jewellery). It purported to hold an interim permission from the FCA to carry on regulated activities and appeared, on the Interim Permission Consumer Credit Register, to hold an interim permission. In fact, the interim permission in question related to a separate firm named Regal Pawnbroker Limited (Regal Pawnbroker). Collateral did not hold any valid authorisation or permission to carry on regulated activities. Regal Pawnbroker and Collateral had a common director.

Interim Permissions

We introduced interim permissions in 2014 to help manage the transfer of the regulation of consumer credit firms (which include peer-to-peer lenders) from the Office of Fair Trading (OFT). Firms which had previously been registered with the OFT, and which wished to continue conducting consumer credit activities could register for an interim permission. This allowed such firms to continue conducting such activities lawfully until the FCA was able to determine their applications for full authorisation. We created a separate register to the (main) Financial Services Register for firms which held interim permissions called the Interim Permission Consumer Credit Register (IP Register).

It appears that it was possible for changes to a firm's details, including its name, to be made to the IP Register from outside the FCA by registered users at the firm holding the interim permission. Self-evidently it would not be legitimate for such a change to be made in respect of a firm that did not actually have the relevant interim permission. This is not possible on the Financial Services Register and is no longer possible on the IP Register.

Collateral

As a firm which had been registered with the OFT, Regal Pawnbroker was granted an IP as of 1 April 2014. On 12 December 2015, someone changed the name on Regal Pawnbroker's entry on the IP Register and Collateral's name was recorded instead as the holder of the interim permission.

On 23 November 2017, we identified that Collateral was not, in fact, the holder of a valid interim permission. At this point, the FCA did not immediately require Collateral to cease business because of a dispute over whether its business constituted regulated activities, and because of the risk that an immediate cessation of business could cause a disorderly collapse when it might have been some possible to avoid such an outcome.

However, by January 2018, it was apparent that there was unlikely to be an agreed resolution and, on 29 January 2018, we requested Collateral to cease conducting regulated activities, to cease advertising itself as being authorised by the FCA, to make the correct position known to its customers and to provide a full customer list to the FCA. On the same day, the IP Register was changed to display the correct details.

Following further communication, on 12 February 2018, Collateral agreed to cease lending activity. However, prior to making the requested notifications, and without informing the FCA, the firm took down its website on 26 February 2018 and purported to appoint an administrator on 28 February 2018.

Administration

Without informing the FCA, on 28 February 2018 the firm purported to appoint an administrator. As an unregulated firm, we did not have the powers (as we would with regulated firms) to impose requirements on Collateral. As a result, and in order to protect consumers, on 16 March 2018, we applied to the High Court to appoint alternative administrators. This application was resisted by both the firm and the purported administrator, and the Court ordered the application to be adjourned until 27 April 2018. Pending the substantive hearing, and at the FCA's request, the Court made various orders, including that Collateral's assets (which would include both its documents and monies held on behalf of customers) should be retained and that no further substantive steps in the administration should be taken. Contact was made with Collateral's bank to ensure no payments were made.

On 6 April 2018, the FCA obtained without notice freezing injunctions against the former directors of Collateral. These remain in place.

On 27 April 2018, having considered evidence from both the firm and the FCA, a High Court judge ordered that the FCA's proposed administrators, Mark Shaw and Shane Crooks of BDO LLP, should be appointed joint administrators of Collateral and two associated companies. Monies previously paid to the former administrator were returned to Collateral.

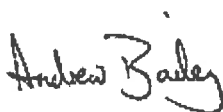
We are aware that the data provided to the administrators created serious difficulties in reconciling Collateral's records and the positions held by its lenders in the various loans, meaning that distribution of client monies has, to date, proved impossible. We have continued to liaise with the administrators throughout the course of their work. On 10 May 2019, Collateral was put into creditors' voluntary liquidation.

Investigation

We are currently investigating Collateral. The investigation is considering the regulatory status of Collateral, the regulated activities it was conducting, the events which led to its register entry appearing to show that it held an interim permission, including how such an entry was effected and by whom, and the apparent loss of the firm's data. The investigation may lead to regulatory or criminal proceedings. The investigation is progressing well.

From the available information, we have assessed that Collateral received approximately £3.8 million from investors after 23 November 2017.

Yours Sincerely,

A handwritten signature in black ink that reads "Andrew Bailey". The signature is written in a cursive style with a small dot above the 'i' in Bailey.

Andrew Bailey
Chief Executive