

Morses Club Limited
Building 1, The Phoenix Centre
1 Colliers Way
Nottingham
NG8 6AT

12 Endeavour Square
London
E20 1JN

Tel: +44 (0)20 7066 1000
Fax: +44 (0)20 7066 1099
www.fca.org.uk

For the attention of Mr Gary Marshall
Chief Executive Officer

Copied to: Clifford Chance LLP

Copied to: Jon Yorke, Customer Advocate

Copied to: Jamie Drummond-Smith

27 March 2023

Dear Gary

Morses Club Scheme Limited (the 'Company') – Proposed Scheme of Arrangement pursuant to Part 26 of the Companies Act 2006 (the 'Scheme')

1. PURPOSE OF THIS LETTER

1.1 The Financial Conduct Authority (the **FCA**) refers to:

- 1.1.1 the Company's application to the High Court of Justice of England and Wales dated 27 February 2023 for an order for permission to convene a meeting of certain of the Company's creditors for the purpose of considering and, if thought fit, approving (with or without modification) the Scheme;
- 1.1.2 the FCA's letter to the firm dated 3 March 2023 (the '**3 March Letter**');
- 1.1.3 the first convening hearing which took place on Tuesday, 7 March 2023 (the '**First Convening Hearing**'); and
- 1.1.4 your response to the 3 March Letter, sent on 10 March 2023.

1.2 The FCA also refers to the second Convening Hearing due to be held on 29 March 2023 (the '**Second Convening Hearing**').

1.3 The FCA is writing to the Company to draw to the attention of the Company (and, in turn, the Court), the current position of the FCA in relation to the Scheme.

1.4 Please note that:

- 1.4.1 the views of the FCA in this letter are expressed by reference to both: (i) the latest drafts of the legal documents provided by the Company to the

FCA on 23 March 2023¹ (and as filed at Court); and (ii) the design of the Scheme as relayed to the FCA by the Company as at the date of this letter;

1.4.2 in relation to the above, the FCA has had limited time to review the latest drafts of the legal documents. These were received late on 23 March 2023, and in the form the Company was proposing to file with Court on the morning of the 24 March 2023. They contain a number of changes to the versions previously seen by the FCA (dated 2 March 2023). The FCA is continuing to review the latest drafts and will provide any additional comments and questions to the firm shortly. As you will appreciate, the fact that the Company continues to make last minute changes to the Scheme has made, and continues to make, it difficult for the FCA to provide its views; and

1.4.3 notwithstanding the contents of this letter, the FCA does not intend to appear by Counsel at the Second Convening Hearing but does intend to publish this letter on its website. The FCA fully reserves its rights to make additional representations (to either the Company and/or the Court) and/or to oppose the sanction of the Scheme in due course.

2. THE FCA'S ROLE AND APPROACH TO ASSESSING THE SCHEME

2.1 The FCA's role and approach to assessing the Scheme were set out in detail in the 3 March Letter.

3. SUMMARY OF THE FCA'S VIEWS

3.1 Noting the FCA's consumer protection objective in securing an appropriate degree of protection for consumers (s.1C Financial Services and Markets Act 2000, (**FSMA**)), in summary, the FCA's position (on the information currently available to it) is as set out below.

3.2 In the 3 March Letter, the FCA set out in detail its views on the Scheme. At the time, the FCA stated it opposed the Scheme in its then current form and had serious concerns about it.

3.3 These concerns included the considerable uncertainty as to whether all the funding sought by Morses Club Limited (**'Morses Club'**) to enable the Scheme to make the compromised payments to creditors will, in fact, be received. For example, the funding which is required from the Shareholders has not been received and there is no certainty it will ever materialise. The position may well remain uncertain until mid-2024. This means that there is a real risk that customers will not receive any form of redress payment whatsoever under the Scheme and instead, that the Scheme will terminate with Morses Club going into administration. The FCA was concerned that in those circumstances customers could be in a worse position than if Morses Club went into administration now.

3.4 The uncertainty over Scheme funding remains. However, since the 3 March Letter, Morses Club has made amendments to the Scheme that it considers prevent customers from being worse off if the Scheme fails, and Morses Club subsequently

¹ The draft Explanatory Statement (the **'Explan'**), the Scheme Document and the Meeting Advertisement.

goes into administration, than they would be if the Company went into administration now. This includes the provision of 'Early Termination Funding' to be held under trust. The Explan states that this provision seeks to ensure that the cash which Morses Club considers would be available to customers were it to go into administration now, will be available in the event the Scheme becomes effective but ends early.

- 3.5 The Company has also looked to ensure that customers are told to stop making further loan repayments and receive Scheme Refund Payments (in each case, as appropriate) promptly after they submit a Scheme Claim. However, Morses Club recognises that if it enters insolvency proceedings at any time before Customers have received such Scheme Refund Payments, it is unlikely that such amounts will be refunded. Also, if Customers have Unpaid Debt they may be worse-off if they continue to make repayments after the Effective Date.
- 3.6 As set out at paragraph 6.3 of the FCA's letter dated 3 March 2023 (and in line with comments made by Mr Justice Leech at the First Convening Hearing on 7 March 2023), amendments have been made by the firm to both the Explan and to the Meeting Advertisement. In this regard, (i) the Explan has been updated to include at page 1 (in a box, in bold type), the FCA's views (entitled 'How does Morses Club's regulator view the Scheme?'), as expressed by the FCA to the firm, and (ii) the Meeting Advertisement has also been updated, such that it now explains, in summary terms, the key facts, matters and risks relating to the Scheme. This document also includes a section that sets out the FCA's views.

4. NEXT STEPS

- 4.1 The FCA acknowledges the actions taken by Morses Club and the improvements these amendments would make to the proposed Scheme, if they work as described. The FCA awaits further progress and information in relation to the implementation of the Early Termination Funding (trust documents and the establishment of a bank account into which the money will be paid).
- 4.2 The FCA also acknowledges changes made by Morses Club to the Claims Methodology, but still has questions about how exactly determination of a claim will work (by way of example, how it will assess cases where customers challenge the outcome of the automated rules-based Claims Methodology given in a 'Determination Notice'). The position of Shelby Finance Limited (Shelby) vis a vis the Scheme continues to raise the same issues outlined in the FCA's letter of 3 March.
- 4.3 Whilst the FCA is not currently proposing to take any immediate regulatory action in relation to Morses Club or Shelby that might impact upon the Scheme, it reserves the right to take any action it might consider appropriate (including to oppose the Scheme in Court after the vote has taken place) in the future or if circumstances change.
- 4.4 Finally, the FCA expects to be kept informed of all relevant matters relating to the progress of the Scheme, including being sent copies of all Scheme documents whether made available to Scheme Creditors or not, and details of any Court hearings should the FCA wish to observe and/or participate in them. The FCA also expect to be kept apprised of any material and/or potential developments in relation to the Scheme or its terms, any objections raised by Scheme Creditors and any

modifications or changes the Company proposes to make (whether as a result of such objections or otherwise). In short, the FCA expects the progress of the Scheme to remain an open and constructive process.

5. CONCLUSION

- 5.1 The FCA's observations are based on the position as it understands it to be, as at the close of business on 27 March 2023. To the extent that matters progress between now and the Second Convening Hearing on 29 March 2023, the FCA would expect the Company to update the FCA and the Court accordingly.
- 5.2 Please confirm that this letter will be brought to the attention of the Court at the Second Convening Hearing on 29 March 2023.

Yours sincerely,

Martha Stokes
Head of Department, Consumer Lending