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## **FIRST SUPERVISORY NOTICE**

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To: **Harp Credit Union Limited**  
Of: **39 Norwich Road**  
**Forest Gate**  
**London**  
**E7 9JJ**

FSA Reference Number: **213509**

Dated: **27 January 2010**

**TAKE NOTICE: The Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS (the “FSA”) has taken the following action**

### **1. ACTION**

- 1.1 For the reasons listed below and pursuant to section 45 of the Financial Services and Markets Act 2000 (the “Act”), the FSA has varied the permission granted to Harp Credit Union Limited (“Harp”), pursuant to Part IV of the Act (“Harp’s permission”) by removing its regulated activity with immediate effect. Accordingly, Harp’s permission no longer includes the regulated activity of accepting deposits.
- 1.2 The FSA has further varied Harp’s permission by including the following requirements, namely that Harp must not:
- (i) make new loans, or make further advances in relation to, or otherwise vary the terms of, any existing loans;
  - (ii) redeem any member's shares;
  - (iii) effect any share to loan transfers;
  - (iv) repay any deposits; or

- (v) without the written consent of the FSA, make any payment, or otherwise dispose of, deal with or diminish the value of any of its assets, except to pay expenses incurred in the ordinary course of Harp's business.
- 1.3 For the avoidance of doubt, the expenses referred to in 1.2(v) do not include gifts, or payments of unusual or significant amounts to Harp's employees or officers or any persons connected to them.
- 1.4 The FSA has also varied Harp's permission by including the following requirements, namely that within 14 days it must:
- (i) advise in writing all members of Harp that it is no longer permitted by the FSA to carry on accepting deposits and of the other restrictions placed upon it by the FSA; and
  - (ii) provide the FSA with a copy of the written advice sent to all members for its regulated activity pursuant to (i) above, together with a list of all members to whom such advice has been sent.

## **2. REASONS FOR ACTION**

### **Summary**

- 2.1 The FSA has concluded, on the basis of the facts and matters described below, that Harp is failing and will continue to fail to satisfy the threshold conditions set out in Part 1 of Schedule 6 to the Act (the "Threshold Conditions") in that, in the opinion of the FSA, Harp has failed to maintain positive capital, and presents a risk to consumers by continuing to be permitted to conduct the regulated activity it carries on.
- 2.2 The FSA considers that Harp should not be permitted to accept new deposits nor should it make any further loan advances or redeem any membership shares, when it has failed to maintain adequate capital.
- 2.3 The FSA considers, on the basis of those facts and matters, that it is necessary, in order to protect the interests of consumers, for the action specified above to take immediate effect.

### **Relevant statutory provisions**

- 2.4 The FSA's regulatory objectives established in section 2(2) of the Act include the protection of consumers.
- 2.5 The FSA is authorised by section 45 of the Act to exercise the following powers:
- to vary an authorised person's permission where it appears to the FSA that such person is failing to satisfy the Threshold Conditions;
  - to vary such a permission by removing a regulated activity from those for which the permission is given; and

- to include any provision in the permission as varied that could be included if a fresh permission were being given in response to an application under section 40 of the Act, including the imposition pursuant to section 43 of the Act of such requirements as the FSA considers appropriate.
- 2.6 Section 53(3) of the Act allows such variations to take effect immediately if the FSA reasonably considers that it is necessary for the variations to take effect immediately.
- 2.7 Paragraph 4(1) of Schedule 6 to the Act sets out Threshold Condition 4, which states:
- “The resources of the person concerned must, in the opinion of the Authority, be adequate in relation to the regulated activities that he seeks to carry on, or carries on.”
- 2.8 Paragraph 5 of Schedule 6 to the Act sets out Threshold Condition 5 which provides that:
- “The person concerned must satisfy the Authority that he is a fit and proper person having regard to all the circumstances, including –
- (c) the need to ensure that his affairs are conducted soundly and prudently.”

### **Relevant Handbook provisions**

- 2.9 In exercising its power to vary a Part IV permission, the FSA must have regard to relevant provisions in the FSA Handbook of rules and guidance (the “Handbook”). The main considerations relevant to the action specified are set out below.

### ***Relevant Principle***

- 2.10 Principle 4 (Financial prudence) as set out in of the FSA's Principles for Businesses (the “Principles”) in the FSA Handbook requires that a firm maintain adequate financial resources.

### ***Relevant Rules and guidance***

- 2.11 FSA Rule CRED 8.3.1R of the Credit Unions Sourcebook in the Handbook (“CRED”) states:
- “A *version 1 credit union* must at all times maintain a positive amount of capital.”
- 2.12 The guidance in CRED 8.3.3G states that:
- “CRED 8.3.1R implements the principle that every pound saved by a depositor with a *credit union* should always be worth at least a pound.”
- 2.13 CRED 5.2.4G allows the FSA to vary a credit union’s Part IV permission on its own initiative if it appears that the credit union is failing, or is likely to fail, to satisfy the Threshold Conditions.

## **Guidance concerning the relevant Threshold Conditions**

- 2.14 Guidance on the Threshold Conditions is set out in Chapter 2 of the Part of the Handbook entitled Threshold Conditions (“COND”).

### COND 2.4 - Threshold Condition 4: Adequate Resources (paragraph 4, Schedule 6 to the Act)

- 2.15 COND 2.4.1UK reproduces the relevant statutory provision that the resources of the person concerned must, in the opinion of the FSA, be adequate in relation to the regulated activities that he seeks to carry on, or carries on.
- 2.16 COND 2.4.2G(2) in giving guidance on the interpretation of “adequate resources”, defines the term “adequate” as meaning sufficient in terms of quantity, quality and availability and “resources” as including all financial resources, capital, provisions against liabilities, holdings of or access to cash and other liquid assets.
- 2.17 COND 2.4.4G(3) requires the FSA only to take into account relevant matters which are material in relation to the regulated activities for which the authorised person has permission.

## **Relevant regulatory provisions**

- 2.18 The FSA's policy in relation to the use of its enforcement powers is set out in the Enforcement Guide (“EG”).

### EG 8 - The FSA's policy for exercising its own-initiative power to vary a Part IV permission

- 2.19 EG 8.1B provides that the FSA will have regard to its regulatory objectives and the range of regulatory tools that are available to it, when it considers how it should deal with a concern about a firm.
- 2.20 EG 8.5 provides that the circumstances in which the FSA will consider varying a firm's Part IV permission include those where the FSA has serious concerns about the firm or about the way its business is being or has been conducted.
- 2.21 EG 8.5(1)(a) specifies the circumstances in which the FSA will consider exercising its own-initiative power include where a firm's financial resources appear to be inadequate for the scale or type of regulated activity it is carrying on.
- 2.22 EG 8.9 includes among the factors which will determine whether the urgent exercise of the FSA's own-initiative power is an appropriate response, the extent of any loss or risk of loss or other adverse effect on consumers and the steps the authorised person has taken or is taking to address the issue.

### **Facts and matters relied on**

- 2.23 Harp is a version 1 credit union which has five individuals currently approved as directors, two of whom are non-executive directors. In its quarterly return for the period ended 30 September 2009, Harp reported that it had 151 members.
- 2.24 The latest information available to the FSA appears to show that Harp had negative capital of £14,582 as at 30 September 2009.

### **Conclusions**

- 2.25 The facts and matters described above lead the FSA, having regard to its regulatory objectives, to the following conclusions:
- Harp is in breach of CRED 8.3.1R in that it is failing to maintain a positive amount of capital at all times and therefore the amount saved by its members is worth less than they deposited;
  - this failing is material in relation to the regulated activity for which Harp has permission and it therefore fails to satisfy Threshold Condition 4 (Adequate resources);
  - the risk of loss or other adverse effect on consumers arising from Harp's failings causes the FSA to have serious concerns about Harp such that the exercise of the FSA's own-initiative powers to vary Harp's permission with immediate effect is an appropriate response to those concerns; and
  - specifically, the variation of Harp's permission should take immediate effect to address the FSA's serious concern that its capital is inadequate for the regulated activity it undertakes.

## **3. DECISION MAKER**

- 3.1 The decision which gave rise to the obligation to give this Supervisory Notice was made by the Chairman of the Regulatory Decisions Committee.

## **4. IMPORTANT**

- 4.1 This Supervisory Notice is given to Harp in accordance with section 53(4) of the Act and is served on Harp at its principal place of business last notified to the FSA. The following statutory rights are important.

### **The Tribunal**

- 4.2 Harp may refer this matter to the Financial Services and Markets Tribunal (the "Tribunal"). Under section 133 of the Act, Harp has 28 days from the date on which it was sent this Supervisory Notice to refer the matter to the Tribunal or such other period as specified in the Tribunal Rules or as the Tribunal may allow. A reference to the Tribunal is made by way of a written notice signed by Harp and filed with a copy of this Notice. The Tribunal's address is: 15-19 Bedford Avenue, London

WC1B 3AS (telephone 020 7612 9700). The detailed procedures for making a reference to the Tribunal are contained in section 133 of the Act and the Tribunal Rules.

- 4.3 Harp should note that the Tribunal Rules provide that at the same time as filing a reference notice with the Tribunal, Harp must send a copy of the notice to the FSA. Any copy notice should be sent to John Kirby at the FSA, 25 The North Colonnade, Canary Wharf, London E14 5HS.

### **Representations**

- 4.4 Harp has the right to make written and oral representations to the FSA, whether or not it refers this matter to the Tribunal. If Harp wishes to make written representations, it must do so by 4 March 2010 or such later date as may be permitted by the FSA. Written representations should be made to the Regulatory Decisions Committee and sent to Adrian Crick, Regulatory Decisions Committee Professional Support Services. The Regulatory Decisions Committee Professional Support Services' address is: 25 The North Colonnade, Canary Wharf, London E14 5HS. If Harp wishes to make oral representations, it should inform us in writing of its intention to do so by 9 February 2010. If Harp does not notify us by 9 February 2010, it will not, other than in exceptional circumstances, be able to make oral representations.

### **Confidentiality and publicity**

- 4.5 Harp should note that this Supervisory Notice may contain confidential information and should not be disclosed to a third party (except for the purpose of obtaining advice on its contents). Harp should also note that section 391 of the Act requires the FSA when the Supervisory Notice takes effect, to publish such information about the matter as it considers appropriate.

### **FSA contacts**

- 4.6 If Harp has any questions regarding the procedures of the Regulatory Decisions Committee, it should contact Adrian Crick, RDC Professional Support Services (direct line: 020 7066 4228).
- 4.7 For more information concerning this matter generally, Harp should contact John Kirby at the FSA (direct line: 020 7066 1458 / fax: 020 7066 1459).

**Tim Herrington**  
**Chairman, Regulatory Decisions Committee**