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## FIRST SUPERVISORY NOTICE

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To: **Tower View Community Credit Union Limited**

Of: **57 Cookson Street  
Blackpool  
FY1 3DR**

FSA Reference Number: **213739**

Dated: **8 October 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 Tower View Community Credit Union Limited (“Tower View”), pursuant to Part IV of the Act (“Tower View’s permission”), by removing its only regulated activity with immediate effect. Accordingly, Tower View’s permission no longer includes the regulated activity of accepting deposits.
- 1.2. The FSA has further varied Tower View’s permission pursuant to section 43 of the Act by including the following requirements, namely that Tower View must not:
  - (1) make new loans, or make further advances in relation to, or otherwise vary the terms of, any existing loans;
  - (2) redeem any member’s shares;
  - (3) effect any share to loan transfers;

- (4) repay any deposits; or
- (5) 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 Tower View's business.

1.3. For the avoidance of doubt, the expenses referred to in 1.2(5) do not include gifts, or payments of unusual or significant amounts to Tower View's employees or officers or any persons connected to them.

1.4. The FSA has also varied Tower View's permission by including the following requirements, namely that within 14 days of this First Supervisory Notice Tower View must:

- (1) advise in writing all members of Tower View 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
- (2) provide the FSA with a copy of the written advice sent to all members for its regulated activity pursuant to 1.4(1) 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 Tower View 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, Tower View 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 Tower View 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. Section 45 of the Act authorises the FSA to exercise the following powers:

- (1) to vary an authorised person's permission where it appears to the FSA that such person is failing to satisfy the Threshold Conditions;

- (2) to vary such a permission by removing a regulated activity from those for which the permission is given; and
- (3) 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 43(3) of the Act permits a requirement to extend to activities which are not regulated activities.

2.7. 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.

2.8. 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.”

### **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 the FSA’s Principles for Businesses (the “Principles”) in the Handbook requires that a firm maintain adequate financial resources.

#### **Relevant Rules and Guidance**

2.11. FSA Rule CRED 8.3.1R in 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.

### Relevant Guidance and the Relevant Threshold Condition

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

*Guidance concerning Threshold Condition 4: Adequate resources (paragraph 4, Schedule 6 to the Act) – COND 2.4*

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.

### **Other 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”).

[The FSA’s policy on exercising the own-initiative power under section 45 of the Act to vary a Part IV permission – EG 8](#)

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. Tower View is a version 1 credit union, with six individuals currently approved as directors. In its Quarterly Return for the period ended 30 June 2010, Tower View reported that it had 187 members and 35 juvenile depositors.
- 2.24. The latest audited financial information available to the FSA reported that Tower View had negative capital of £29,291 as at 30 September 2009. Tower View has had negative capital since at least September 2008. Tower View has failed to rectify its negative capital position, despite having had a reasonable opportunity to do so.

## **Conclusions**

- 2.25. The facts and matters described above lead the FSA, having regard to its regulatory objectives, to the following conclusions:
  - Tower View is in breach of CRED 8.3.1R by 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 Tower View has permission and it therefore fails to satisfy Principle 4 (Financial prudence) and Threshold Condition 4 (Adequate resources);
  - the risk of loss or other adverse effect on consumers because of Tower View's failings causes the FSA to have serious concerns about Tower View such that the exercise of the FSA's own-initiative powers to vary Tower View's permission with immediate effect is an appropriate response to those concerns; and
  - the variation of Tower View's permission should take immediate effect to address the FSA's serious concern that its capital is inadequate to conduct the regulated activity that it carries on.

## **3. DECISION MAKER**

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

## **4. IMPORTANT**

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

## **The Tribunal**

- 4.2. Tower View has the right to refer the matter to which this First Supervisory Notice relates to the Upper Tribunal, Tax and Chancery Chamber (the “Tribunal”). Under paragraph 2(2) of Schedule 3 of the Tribunal Procedure (Upper Tribunal) Rules 2008, Tower View has 28 days from the date on which this First Supervisory Notice is given to it to refer the matter to the Tribunal.
- 4.3. A reference to the Tribunal is made by way of a reference notice (Form FTC3) signed by Tower View (or on Tower View’s behalf) and filed with a copy of this First Supervisory Notice. The Tribunal’s address is: The Upper Tribunal, Tax and Chancery Chamber, 45 Bedford Square, London WC1B 3DN (telephone 020 7612 9700; email [financeandtaxappeals@tribunals.gsi.gov.uk](mailto:financeandtaxappeals@tribunals.gsi.gov.uk)).
- 4.4. Further details are contained in “Making a Reference to the UPPER TRIBUNAL (Tax and Chancery Chamber)” which is available from the Upper Tribunal website:

<http://www.tribunals.gov.uk/financeandtax/FormsGuidance.htm>

- 4.5. Tower View should note a copy of the reference notice (Form FTC3) must also be sent to John Kirby at the FSA at the same time as filing with the Tribunal.

## **Representations**

- 4.6. Tower View has the right to make written and oral representations to the FSA (whether or not it refers this matter to the Tribunal). If Tower View wishes to make written representations, it must do so by 11 November 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 Lynn Cheesman, 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 Tower View wishes to make oral representations, it should inform Lynn Cheesman in writing of its intention to do so by 19 October 2010. If Tower View does not notify the FSA by 12 October 2010, it will not, other than in exceptional circumstances, be able to make oral representations.

## **Confidentiality and publicity**

- 4.7. Tower View should note that this First 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). Tower View should also note that section 391 of the Act requires the FSA when the First Supervisory Notice takes effect (and this First Supervisory Notice has immediate effect), to publish such information about the matter as it considers appropriate.

### **FSA contacts**

- 4.8. If Tower View has any questions regarding the procedures of the Regulatory Decisions Committee, it should contact Lynn Cheesman (direct line: 020 7066 3192), Regulatory Decisions Committee Professional Support Services at the FSA.
- 4.9. For more information concerning this matter generally, Tower View should contact John Kirby (direct line: 020 7066 1458 / fax: 020 7066 1459), Enforcement and Financial Crime Division at the FSA.

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