

Amendments to Financial Services Bill to Promote Social Investment

Summary

1. Chris Leslie MP, the Shadow Financial Secretary to the Treasury has tabled two amendments to the Financial Services Bill, to promote social investment.
2. The amendments would place social finance and social investment on the agenda of the new Financial Conduct Authority (FCA) and pave the way for the growth of the social investment market, which will receive a large injection of capital from Big Society Capital, a new social investment wholesaler set up under the Dormant Bank and Building Society Accounts Act 2008, and is experiencing a wave of innovation.
3. The amendments to the Bill would place a general 'social investment duty' on the FCA to carry out its regulatory work in a way which promotes the growth and development of social finance and social investment and would require the FCA to establish a 'social investment panel' with knowledge and expertise in social finance and social investment, which it would need to consult and have regard to over time in relation to the conduct of its activities.
4. The amendments:
 - 4.1 are very simple and straightforward;
 - 4.2 do not have any cost implications;
 - 4.3 do not have any consequences for the rest of the Bill;
 - 4.4 recognise the growing importance of social finance and social investment;
 - 4.5 acknowledge that social finance is a developing market requiring careful regulation;
 - 4.6 are consistent with the Government's declared strategy of growing civil society and the social investment market at a time of fiscal austerity and public spending cuts;
 - 4.7 would help Big Society Capital to achieve its aims and be a success;
 - 4.8 would be an example of the Government supporting responsible capitalism and would be a step towards creating a 'John Lewis economy' with greater shared wealth;
 - 4.9 should support open public services, localism and outcomes based finance agendas;
 - 4.10 would make sure that the FCA has social finance and social investment in its 'DNA', encouraging responsive and sensitive regulation in a developing area;
 - 4.11 would ensure that the FCA does not adopt a regulatory approach which unnecessarily inhibits innovation in social finance and social investment;
 - 4.12 would help the UK to strengthen its place as a leading global centre for social finance and social investment; and

- 4.13 would help the UK to remain competitive with other often smaller, more mobile jurisdictions in the growing international impact investment market.

The Financial Services Bill

5. The Financial Services Bill was introduced to Parliament on 26 January 2012.
6. The Bill will implement the Government's commitment to strengthen the financial regulatory structure in the UK. The legislation will fundamentally reform the current financial regulatory system, which divides responsibility between the Treasury, the Bank of England and the Financial Services Authority.
7. The FCA will be the successor body to the FSA. The FCA will supervise financial firms to ensure that business across financial services and markets is conducted in a way that advances the interests of all users and participants.

The Amendments

8. The amendments are numbers 72 and 73 on the following link:
<http://www.publications.parliament.uk/pa/bills/cbill/2010-2012/0278/amend/psc2782102m.28-34.html>
9. The amendments to the Bill, which have been tabled by Chris Leslie MP, the Shadow Financial Secretary to the Treasury, would:
 - 9.1 place a general 'social investment duty' on the FCA to carry out its operational objectives in a way which promotes the growth and development of social finance and social investment; and
 - 9.2 require the FCA to establish a 'social investment panel' of persons with knowledge and expertise in social finance and social investment which it would be obliged to consult and have regard to over time in relation to the conduct of its activities.

Parliamentary Process

10. The Bill is currently at the Committee Stage which is scheduled to complete on 20 March 2012. The Committee is scheduled to report on 22 March 2012.
11. The Bill will then move to the Report stage and then for a third reading in the House of Commons. There is no timetable for when the Report stage will be held. The Parliament website states that the Report stage is normally followed immediately by debate on the Bill's third reading. Therefore the Report stage and the third reading are likely to be at the same time around the week of 22 March 2012.
12. The Bill will then move to the House of Lords following the same process.
13. The Bill is expected to receive Royal Assent by the end of 2012.

Government Policy on Social Investment

14. The amendments are consistent with the Government's aim to grow civil society and the social investment market:

<http://www.cabinetoffice.gov.uk/resource-library/growing-social-investment-market-vision-and-strategy>

15. The amendments would help Big Society Capital, the new social investment wholesaler under the Dormant Bank and Building Society Accounts Act 2008 which, to achieve its aim of developing a new class of social finance intermediaries which will help to finance and capitalise civil society organisations across the UK:

<http://www.bigsocietycapital.com/>

16. It is hoped that social investment will grow civil society, assist the development of more open public services, advance localism and enable more payment by results and outcomes focussed financing of charities and social enterprises.

Innovations and Developments in Social Investment

17. The amendments acknowledge the special features of social investment and reflect growing innovation in the social investment market, including:

- 17.1 the establishment of Big Society Capital;
- 17.2 the launch of social venture funds such as Big Issue Invest and Bridges Ventures;
- 17.3 the development of social impact bonds, such as those piloted by Social Finance;
- 17.4 the issuance of listed charity bonds, such as the bond recently issued by Scope;
- 17.5 the growth of crowd-funding and peer-to-peer lending, such as BuzzBnk and Zopa;
- 17.6 the development of new internationally focussed impact investment funds, such as the recent impact investment fund launched by Oxfam; and
- 17.7 the prospective launch in London in the next year of a 'Social Stock Exchange' for social enterprises, which is one of the first investments by Big Society Capital.

Organisations in Support

18. The following organisations are in support of the amendments:
 - 18.1 Big Society Capital - the social investment wholesaler;
 - 18.2 Big Issue Invest - a specialised provider of finance to social enterprises and charities;
 - 18.3 Bridges Ventures - a firm which invests for financial returns and social impact;
 - 18.4 Community Development Finance Association - the membership body for community development finance institutions in the UK;

- 18.5 CAF-Venturesome - the social investment arm of the Charities Aid Foundation;
- 18.6 National Council for Voluntary Organisations - the largest umbrella body for the community and voluntary sector in England;
- 18.7 Social Enterprise UK - a national organisation promoting social enterprise in the UK;
- 18.8 Social Finance - which was set up to lay the foundations for a social investment bank;
- 18.9 Social Investment Business – the UK’s largest social investor;
- 18.10 The UK Sustainable Investment and Finance Association - the member association of the UK social, ethical, and green investment industry and community.

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