



FINANCE ASSOCIATION

Operating Principles

1. Introduction

- 1.1 The purpose of the P2PFA Operating Principles is to set good practice standards in the UK's peer-to-peer lending sector. Each P2PFA member platform agrees under the P2PFA Rules to be bound by these Operating Principles, and to work to promote the positive reputation of the Association and the sector. Platforms should abide by both the spirit and the letter of these Operating Principles.
- 1.2 Platforms commit to abide by the following High-Level Principles in the conduct of their business:
 - 1.2.1 **Competence:** platforms will manage all their business activities with technical and professional competence;
 - 1.2.2 **Honesty:** platforms will communicate to customers and other stakeholders in a way which is open, clear, truthful and unambiguous;
 - 1.2.3 **Integrity:** platforms commit to promoting and serving the interests of their customers, both lenders and borrowers;
 - 1.2.4 **Transparency:** platforms pledge to be open, transparent and honest in disclosing information relating to the business transacted and performance achieved in the origination of loans, credit risk assessment and management, delivery of returns for investors and other key information which allows the public to judge their performance.

2. Competence, Honesty and Integrity

- 2.1 Platforms will **demonstrate full compliance with all statutory regulatory arrangements applicable to them**. This includes, but is not limited to: (a) marketing and promotions; (b) anti-money laundering and fraud prevention; (c) client money management; (d) IT systems and controls; (e) records and document management; (f) bad debt recovery; (g) complaints handling; (h) platform disclosures and (i) orderly wind-down arrangements.
- 2.2 Platforms shall embrace robust arrangements for **credit risk management** and undertake sufficient assessment to satisfy themselves that those who borrow can afford prudently to do so. The objective should be to ensure, as far as possible, that platforms can maintain loss rates consistent with their published estimates.
- 2.3 Each platform should **explain the principles underpinning its approach to credit risk management** to customers and prospective customers.
- 2.4 **Only soft credit risk searches** should be performed on prospective consumer borrowers at initial application stage.
- 2.5 Platforms shall carry out and published analysis used to **test for resilience in the event of adverse scenarios** including the range of expected losses in these scenarios.
- 2.6 Platforms must **not discriminate unfairly between any category of lender** and, in particular, should not operate in any way that disadvantages retail investors.
- 2.7 Platforms will **not seek to conceal loss rates** by use of their own capital to finance loans.
- 2.8 Platforms will **not undertake any form of maturity transformation**, so that the duration of all direct lending contracts used to provide funding to a borrower will match the term of the loan that is agreed by that borrower with each lender.

- 2.9 Platforms will ***not borrow or raise funds through their own lending website or through those of other peer-to-peer lending platforms.***
- 2.10 Governance arrangements must demonstrate the platform's commitment to comply with the ***principles of good corporate governance***, including measures which enshrine the importance of acting with integrity and probity in all cases; the proper management of conflicts of interest; effective risk management; putting the interests of customers at the heart of the business; and the appointment of independent directors (who are neither members of the executive team or platform's equity investors) to the platform's governing board.

3. Transparency

- 3.1 Platforms must set out in a clear and balanced way the ***information necessary to enable customers and prospective customers (lenders and borrowers) to make informed decisions.*** Such information should be accessible simply without requiring numerous 'click-throughs'.
- 3.2 Investors should be able to ***assess sufficiently-detailed information to understand the characteristics of those to whom their own money has been lent*** (without disclosing personal data).
- 3.3 Platforms will ***disclose all fees and charges***, including the weighted average rate of interest paid by borrowers (expressed as a gross rate including any reserve fund fees).
- 3.4 Platforms commit to ***publish prominently, on readily-accessible pages of their website, meaningful data reflecting bad debt rates and returns performance*** (net of fees and defaults) according to the standard P2PFA methodology defined in the Appendix to this document.
- 3.5 Platforms undertake to ***publish their full loan book***, which is a loan-by-loan view of the portfolio of loans originated through the platform.
- 3.6 Platforms must ***not claim, or imply, that investor returns are safe or guaranteed.***
- 3.7 Platforms must be explicit that ***instant access for lenders is not guaranteed***, and must not mislead investors about the likelihood of early access to fund.

4. Waivers, Disclaimer & Review

- 4.1 A platform may seek a waiver from any of the specific Operating Principles, but the member will need to demonstrate that its alternative approach is consistent with the Operating Principle[s] which it asks to be waived. Waivers are subject to the approval of the P2PFA's Independent Board Members and will be published unless the Independent Board Members agree otherwise.
- 4.2 These Operating Principles are not intended to confer a benefit on any third party and no person other than a party may enforce the terms of these Operating Principles by virtue of the Contracts (Rights of Third Parties) Act (1999) or any other such law or regulation.
- 4.3 The P2PFA's Operating principles will be subject to annual review by the P2PFA Board.

Appendix: Definition of Metrics to be disclosed by P2PFA platforms

1. Bad Debt Rates

Platform disclosure on bad debt rates should include:

- **Actual Arrears:** the total outstanding loan balances on loans more than forty-five days late but not defaulted, expressed as a percentage of the amount lent in the calendar year;
- **Actual Lifetime Bad Debt:** total bad debt (defaults less actual recoveries) over the lifetime of the loans expressed as a percentage of the amount lent in a calendar year (this is not an annualised number);
- **Expected Lifetime Bad Debt Rate:** expected bad debt (expected defaults less recoveries) over the lifetime of the loans as a percentage of the amount lent in a calendar year estimated *at the time of the origination* of the loans (this is not an annualised number);
- **Projected Lifetime Bad Debt Rate:** latest bad debt projection for each yearly cohort using actual performance from the cohort to date plus projected future losses; and
- **Actual Return:** principal repaid as a proportion of the amount lent in a calendar year.

*Note: the **definition of bad debt (non-performing loans)** includes any portion of a loan that has not been repaid after 90 days from the date the loan became due for all lending apart from property, where the period shall be 180 days;*

In addition, where a platform uses reserve funds to protect investors against losses:

- **Actual Bad Debt Fund Usage:** total payments made by the reserve fund (less recoveries) in relation to each annual cohort, expressed as a proportion of total contributions to the reserve fund from these loans, excluding bank interest income and other administrative fees and charges.

2. Returns Performance

Platforms will publish the following information on the returns performance over the previous five years for loans facilitated through their platform (or for the period since launch if the platform has been operating for fewer than five years):

- **Amount lent;**
- **Annual Actual Return to date of loans in origination year:** expressed as a percentage of the amount lent after fees and bad debts;
- **Estimated Annual Return at origination:** a percentage of the amount lent after fees and estimated bad debts;
- **Percentage of Amount Lent realised:** expressed as the percentage of principal repaid after excluding bad debts; and
- **Gross annual interest rate paid by borrower:** including any servicing or reserve fund fees

In addition, where a reserve fund exists to cover bad debts, the platforms must also disclose:

- **Actual Annual Investor Return to date:** the percentage of amount lent after fees and bad debt fund compensation; and
- **Bad Debt Fund Usage:** percentage of bad debts in-year as a proportion of the fund raised during that same year.