Financial Conduct Authority

Call for input to the post-implementation review of the FCA's crowdfunding rules

July 2016

Contents

We are asking for response to this Call for Input by 8 September 2016.

You can send them to us using the form on our website at:
www.the-fca.org.uk/call-input-post-implementation-review-crowdfunding-rules-response-form

Or in writing to:

Jason Pope
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Email: crowdfundingcfi@fca.org.uk

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 0790 or email publications_graphics @fca.org.uk or write to Editorial and Digital Department, Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.

Abbreviations used in this document

AIFMD	Alternative Investment Fund Managers Directive
CASS	Client Assets sourcebook
CCA	Consumer Credit Act 1974
CONC	Consumer Credit sourcebook
CP	Consultation paper
FCA	Financial Conduct Authority
FSCS	Financial Services Compensation Scheme
ISA	Individual Savings Account
MCOB	Mortgage and Home Finance: Conduct of Business Sourcebook
P2B	Peer-to-business
P2P	Peer-to-peer
SME	Small or medium sized enterprise
SYSC	Senior Management Arrangements, Systems and Controls

1.
Overview

Introduction

1.1 In 2014, new rules came into force for the regulation of crowdfunding platforms operated by firms authorised by the Financial Conduct Authority (FCA).[1] We committed to carry out a full post-implementation review of the crowdfunding market and regulatory framework in 2016 to identify whether further changes are required.

1.2 This paper is our first step in launching the crowdfunding post-implementation review. It is a call for input to invite readers to engage with the review, to offer feedback about the areas we should consider and their thoughts on the sector. In it we summarise some of the market developments we have seen recently and some of our current concerns to help structure the conversation.

1.3 Over the coming months we will be conducting work with firms to collect evidence on potential risks and address any knowledge gaps; and we will carry out additional research into the market as a whole to inform the review. The responses we receive to this paper will help us design and interpret our research; a strong response will support our understanding of client and firm experience of the current rules, and help structure our thoughts on the market and its future development.

1.4 We have developed this Call for Input in the context of the existing UK and EU regulatory framework. We will keep the issues identified in this Call for Input and any feedback we receive under review to assess whether any amendments will be required due to changes in the UK regulatory framework, including as a result of any negotiations following the UK's vote to leave the EU.

Who does this document affect?

1.5 This paper will be of interest to consumers and consumer organisations with an interest in the investments offered on crowdfunding platforms, and similar investment offers such as the marketing of mini-bonds.

1.6 It will also be of interest to:

- Firms that operate or plan to operate peer-to-peer (P2P) lending platforms or peer-to-business (P2B) lending platforms (which we refer to as loan-based crowdfunding platforms in this paper) on which consumers can invest in loan agreements (which we refer to as P2P agreements).

1 The borrower protection rules in the Consumer Credit sourcebook came into force from 1 October 2014

- Firms that operate or plan to operate investment-based crowdfunding platforms on which consumers can buy investments, such as equity or debt securities securities (such as bonds or debentures) that are not listed or traded on a recognised exchange, or units in an unregulated collective investment scheme.
- Firms that market non-readily realisable equity or debt securities to retail clients outside of online investment crowdfunding platforms.
- Firms that compete for business with P2P lenders.

1.7 It will also be of interest to consumers and businesses that have entered into, or plan to enter into, P2P agreements as borrowers.

Context

1.8 Achieving more diverse and accessible financing for individuals and small and medium sized enterprises (SMEs), as well as more rigorous competition in retail banking services, were reaffirmed as Government priorities in the 2016 Budget. We continue to support these by promoting effective competition in regulated financial services in the interests of consumers. Additionally, through our Innovation Hub we assist new and established businesses - both regulated and non-regulated – in introducing innovative financial products and services to the market.

1.9 Crowdfunding is a way in which people, organisations and businesses, including business start-ups, can raise money through online portals to finance or re-finance their activities. These portals, which act as brokers between parties looking to invest money and parties looking to raise money, are commonly referred to as crowdfunding platforms. Some crowdfunding activity is unregulated, some is regulated and some is exempt from regulation.

1.10 We are responsible for regulating:[2]

- Loan-based crowdfunding platforms, on which people and institutions lend money to individuals or businesses in the expectation of a financial return in the form of interest payments and a repayment of capital over time. On 1 April 2014, the regulation of the consumer credit market transferred to us. This gave us responsibility for regulating firms lending by way of business through loan-based crowdfunding platforms, and also the platforms themselves – the activity of operating a peer-to-peer lending platform became a bespoke regulated activity from 1 April 2014.[3]
- Investment-based crowdfunding platforms, on which people invest in unlisted shares or debt securities issued by businesses. We have always had regulatory responsibility for crowdfunding where it involves a person carrying on the regulated activity of arranging deals in investments, or the communication of a financial promotion in relation to securities.

1.11 Funds lent out via a loan-based crowdfunding platform or investments made via an investment-based crowdfunding platform are different to monies deposited in a deposit or current

2 We do not regulate other forms of crowdfunding, such as rewards-based or donations-based crowdfunding

3 Article 36H of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 – 'operating an electronic system in relation to lending'. Facilitating loans between lenders and borrowers who are not individuals or certain types of non-corporate businesses and where the amount borrowed is over £25,000 or the borrowing is for business purposes, is not captured by the regulated activity.

account. Throughout this document we refer to individuals that carry out the former activities as investors, which reflects their treatment under our regulatory regime.

1.12 For peer to peer loans the investor cannot usually seek repayment of the loan on demand, as they might for a current account or for an instant access deposit account. The investor must wait to be repaid under the terms of the loan, which may be a long term loan, or must assign his loan to another investor to exit the loan. For equity investments to exit an investor's position that person must sell the investment.

1.13 Furthermore, investors on investment-based crowdfunding platforms are exposed to capital risk – the risk that the funds they will receive upon exit will be less than the capital they originally invested (eg because of lower-than expected company valuations). Similarly, investors on loan-based crowdfunding platforms are exposed to default risk. Both are also exposed to liquidity risk – the risk that they will not be able to achieve an exit because of the lack of investors willing to take assignments of loans or investors buying equities in time to cover other financial demands. Reflecting the differences between deposits and investments made through crowdfunding platforms, investors in the latter are not eligible to claim against the Financial Services Compensation Scheme (FSCS) for losses resulting from borrower defaults, or for capital losses on equity that they acquired through a platform (see also Sections 2.57 to 2.60).

1.14 We published new rules for investor protection on crowdfunding platforms in February 2014,[4] which, subject to certain transitional provisions, generally came into force on 1 April 2014.[5] We tailored these rules to the risks to consumers identified in the market at that time, focusing on ensuring adequate disclosures to prospective investors to enable them to take informed investment decisions. The regime also took account of the fact that the crowdfunding market was relatively new and could provide beneficial competition, helping provide alternative sources of finance, so we wanted to introduce a proportionate framework of rules that could be amended in due course to reflect changes in the market.

1.15 We published an interim review of the crowdfunding market in February 2015.[6] We noted that the market had grown rapidly in the months since the rules were introduced. At the time we did not regard market changes to be sufficient to justify a change in our rules, either to strengthen consumer protection or to relax the requirements that apply to firms. Since then the market has continued to grow and evolve and we believe now is an appropriate time to consider once again whether rules changes are needed.

1.16 In March 2014, we said we would conduct a full post-implementation review of the regime and market in 2016, in particular in relation to investor protection. This paper is a call for evidence as part of that post-implementation review. In it, we summarise some of the changes we have seen in the market since 2014; we ask you what risks you see emerging for consumers and the function of the market as a result of these changes; and whether there are areas in which we should consider adapting our rules as a result.

4 *Detailed rules for the FCA regime for consumer credit (including feedback on FCA QCP13/18 and 'made rules'* (PS14/3), February 2014: www.fca.org.uk/static/documents/policy-statements/ps14-03.pdf

5 *The FCA's regulatory approach to crowdfunding over the internet, and the promotion of non-readily realisable securities by other media: Feedback to CP13/13 and final rules* (PS14/4), March 2014: www.fca.org.uk/static/documents/policy-statements/ps14-04.pdf

6 *A review of the regulatory regime for crowdfunding and the promotion of non-readily realisable securities by other media,* February 2015: www.fca.org.uk/static/documents/crowdfunding-review.pdf

Market size and market growth

1.17 The crowdfunding market has grown rapidly from 2014. While an estimated £500m was invested on regulated crowdfunding platforms over the course of 2013, an estimated £2.7bn was invested over the course of 2015.[7] There are now over 100 platforms in the market or seeking authorisation.

1.18 At present, 9 firms are fully authorised to offer loan-based crowdfunding platforms and we are currently considering 88 applications from firms. These include firms operating in the market with interim permission, having previously been licenced by the Office of Fair Trading under the regime pre-April 2014.

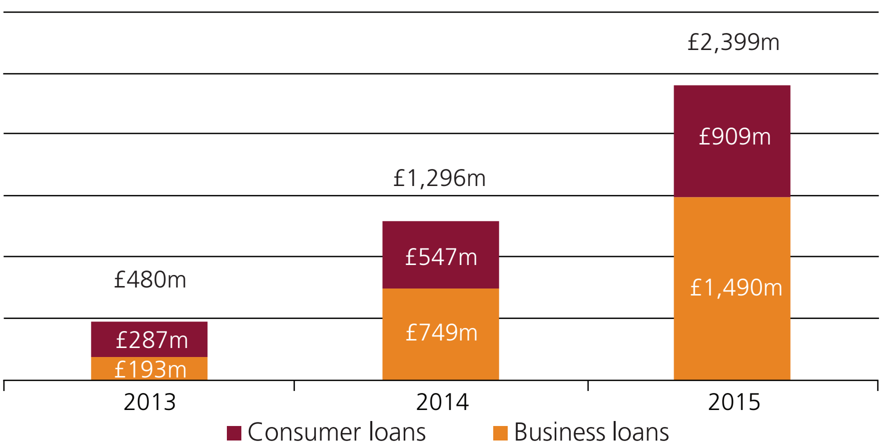
1.19 Additionally, 23 FCA-authorised firms and 11 appointed representatives operate investment-based crowdfunding platforms. At the time of our 2015 interim review of the sector, there were 14 authorised firms and 11 appointed representatives.

1.20 Interim permissions for loan-based crowdfunding platforms were based on the OFT's licencing regime and required only limited information on the firms' size and activities, while full authorisation requires that firms meet our threshold conditions. We continue work to assess whether firms with interim permission meet these. It is important that we properly consider applications from firms wishing to be fully authorised and that the firms meet rigorous statutory standards. We will not authorise firms that do not meet our standards. We will continue to authorise firms under the current regulatory regime while we conduct the post-implementation review.

1.21 Firms entering the market after 1 April 2014 must first secure full authorisation from us and we similarly assess applications against our threshold conditions.

1.22 According to the 2015 UK Alternative Finance Industry Report, by the Cambridge Centre for Alternative Finance and Nesta, the loan-based crowdfunding market has grown rapidly in recent years, as shown in Figure 1.

Figure 1: Loan-based crowdfunding volume by year

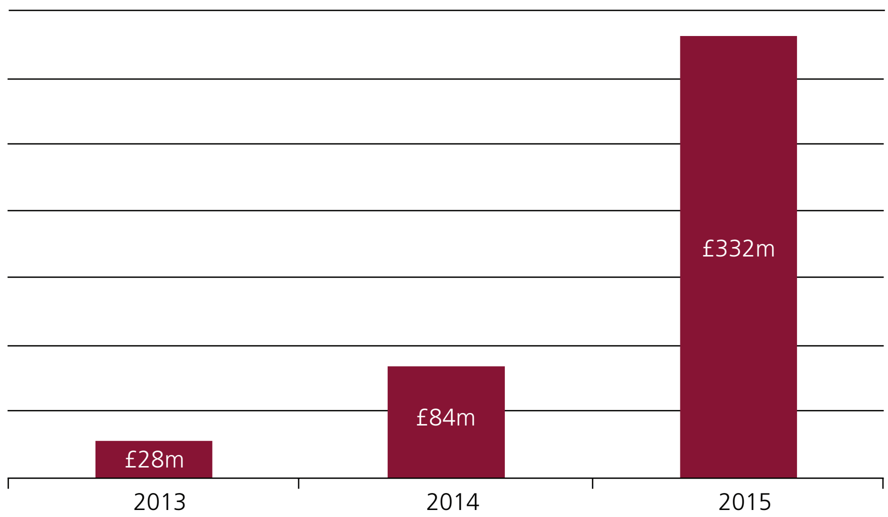


1.23 The equity-based crowdfunding market has also grown rapidly in recent years, but is still relatively small compared to the £16.7bn in retail sales of investment funds over the course of

7 Cambridge Centre for Alternative Finance and Nesta, *Pushing Boundaries: the 2015 UK Alternative Finance Industry Report*, www.nesta.org.uk/sites/default/files/pushing_boundaries_0.pdf

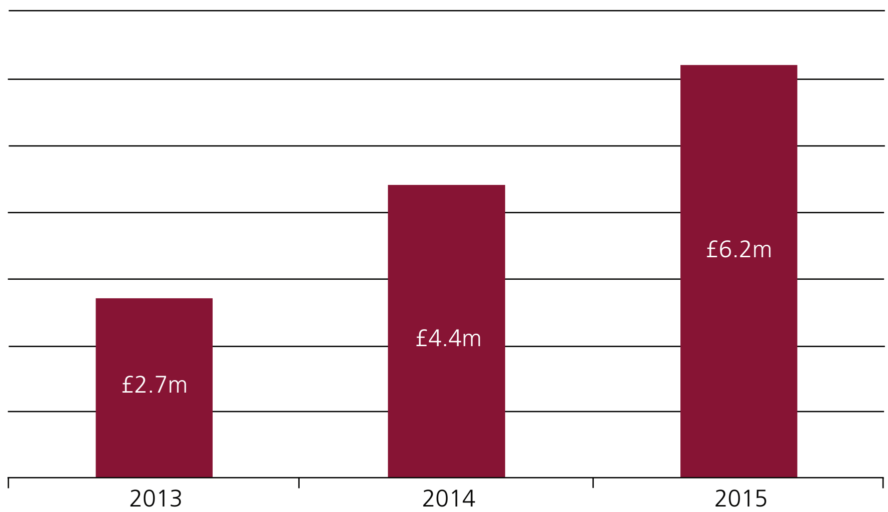
2015.[8] Figure 2 shows the growth in volume in equity-based crowdfunding in the UK in recent years.

Figure 2: Equity crowdfunding volume by year



1.24 The 2015 Alternative Finance Industry Report also shows growth in the market for debt securities (regulated investment products such as bonds or debentures) on crowdfunding platforms, as shown in Figure 3. Nevertheless this market remains small in relation to the total volume of lending through such platforms.

Figure 3: Debt security crowdfunding volume by year



1.25 A recent development noted in the 2015 Alternative Finance Industry Report is the increasing use of crowdfunding platforms to finance real estate. Of the £1,490m invested in business loans in 2015, £609m, around 41%, was used to finance real estate lending (such as loans to purchase buy-to-let properties or bridging finance). Additionally, of the £332m raised on

8 Investment Association, retail sales: www.theinvestmentassociation.org/investment-industry-information/fund-statistics/retail-sales.html?what=table&show=20

investment-based crowdfunding platforms in 2015, some £85.7m was invested in real estate companies (which allow investors to acquire ownership of a property-asset via the purchasing of shares of a single property or a number of properties) as opposed to commercial businesses. This suggests a trend towards using both loan and investment-based crowdfunding platforms for more fund-like investments, where businesses are set up as pooled investment vehicles rather than as trading enterprises.

Summary of the discussion

1.26 In 2014, the market for crowdfunding was at an early stage of development. It had the potential to provide beneficial competitive pressure to the advantage of both investors and borrowers or projects raising money. Taking this into account, we introduced a regime two years ago to provide adequate protections for investors while allowing consumers and businesses to continue to have access to this innovative method of funding.

1.27 Now that the UK market is more established and crowdfunding has become a more accepted form of raising capital, we are considering whether the rules need to be changed to reflect its current scale and status and the risks to investors, or whether the current regime deals adequately with the risks and does not need to be changed.

1.28 We are aware that regulators in other jurisdictions take different approaches to the regulation of crowdfunding.[9] There have also been some well-publicised problems in some crowdfunding platforms in other jurisdictions. While the market context varies from country to country, it is important we learn from experience elsewhere to ensure that our regulation provides appropriate levels of consumer protection.

1.29 The sector has evolved considerably in the last two years, and now offers a number of different propositions from those in the market two years ago. We have potential concerns about some areas of the market and would like to explore them further in this year's review. This paper therefore also sets out our initial thinking on areas where it might be appropriate to adjust the rules.

1.30 In addition to feedback to this paper, we will be analysing market trends and firms' business models and systems and controls. This will help us to test how the market has changed in the last two years and how firms are meeting the current rules.

1.31 For the avoidance of doubt, as for all firms, we will continue to authorise and supervise firms under the current regulatory regime.

9 See, for example, the IOSCO *Crowdfunding 2015 survey responses report,* FR29/2015, December 2015: www.iosco.org/library/pubdocs/pdf/IOSCOPD520.pdf, the EU Commission's staff working document, *Crowdfunding in the EU Capital Markets Union,* 5 March 2016: http://ec.europa.eu/finance/general-policy/docs/crowdfunding/160428-crowdfunding-study_en.pdf, and Cambridge Centre for Alternative Finance and EY, *Moving mainstream*, the *European Alternative Finance Benchmarking Report,* February 2015: http://ec.europa.eu/finance/general-policy/docs/crowdfunding/150304-presentations-ecsf_en.pdf

Next steps

1.32 We want to know what you think. Please send us your comments by 8 September 2016, using the online response form on our website or by writing to us at the address on page 2. We will consider your feedback and use it to inform additional analysis that we will conduct in the coming months. If justified by evidence in the review, we will consider publishing a consultation paper with proposals for rule changes.

2.
Loan-based crowdfunding

2.1 In this chapter we summarise market developments since the FCA took over regulation of the loan-based crowdfunding (also commonly known as peer-to-peer and peer-to-business) sector. We set out some of our current concerns and make initial suggestions for addressing them. We invite feedback on these matters, both in respect of the issues and the proposed solutions.

Summary of the current regulatory approach

2.2 The current rules to protect investors on loan-based crowdfunding platforms focus on ensuring that consumers interested in lending to individuals or businesses have access to clear information, supported by some core basic consumer protections. In particular, we expect any promotion of P2P investments to be carried out in a manner which is fair, clear and not misleading. This allows consumers to assess the risks involved before investing. Core consumer protection requirements include that client money must be adequately protected and firms must meet minimum capital standards. Finally, we require firms running these platforms to have resolution plans in place that mean, if the platform collapses, loan repayments will continue to be collected so those lending money do not lose any of the funds repaid by borrowers.

2.3 Where a borrower on a loan-based crowdfunding platform is an 'individual' as defined in the Consumer Credit Act 1974 (CCA) – in other words, a consumer or a sole trader or small partnership (or other unincorporated body) borrowing less than £25,000 for the purposes of the borrower's business – the credit agreement will be a 'regulated credit agreement' unless a specific exemption applies. If the investor (as lender) is lending in the course of a business – which is likely to be the case for institutional investors and possibly some other cases – the agreement will be subject to the full requirements of the CCA and the investor will need FCA authorisation and to comply with rules in the FCA's Consumer Credit sourcebook (CONC) applicable to lenders. In addition, the P2P platform will need authorisation for the activity of 'operating an electronic system in relation to lending' (article 36H) where, amongst other things, the platform facilitates persons becoming a lender and borrower under an 'article 36H agreement'.

2.4 If the lending is not in the course of business, the agreement may still be a regulated credit agreement but is a 'non-commercial agreement' for the purposes of the CCA. In addition, the lender will not need FCA authorisation for lending.[10] For example, the non-commercial lender will not need to comply with CCA requirements on pre-contract credit information or the form, content and execution of the credit agreement.

2.5 To address this gap in borrower protection, the FCA introduced new rules in CONC specifically for P2P platforms. These mean, for example, that even if the lending is 'non-commercial'

10 But note that if the agreement is assigned (of which notice is given to the borrower) to a firm acting by way of business, the latter firm will require permission under Article 60B(2) of the Regulated Activities Order.

the platform will need to provide an adequate pre-contract explanation of the proposed credit agreement including key risks to the borrower, and to undertake an assessment of the borrower's creditworthiness. It will also need to provide a 14-day right of withdrawal to the borrower, similar to that under the CCA, and to comply with CONC rules on arrears, default and recovery.

Recent market developments

Evolution of investor offerings

2.6 One emerging feature of platforms is a broader pooling of credit risk. A core characteristic of loan-based crowdfunding is the matching of multiple lenders to a single borrower with many lenders making small (micro) loans to meet a borrower's (macro) borrowing requirement. Those lenders effectively share in the risk if the borrower is unable to repay its loan. However, platforms are also increasingly developing models that provide for pooling of such risk across the lenders on a platform as a whole. Some platforms voluntarily maintain shared provision funds, which are designed to protect investors in the event of a borrower's default. Since all investors on the platform pay into the provision fund (often by way of the platform directing a small fraction of lenders' investments to the provision fund), and defaults result in a reduction in the provision fund (so potentially reducing its availability to other lenders), each investor on the platform has some indirect exposure to the risk of other loans on the platform in which they may not themselves be invested.

2.7 This pooling and other factors may mean that some firms operating loan-based crowdfunding platforms are also operating collective investment schemes. In January 2016, the Treasury amended secondary legislation so that firms carrying on the activity of operating an electronic system in relation to lending are not regarded as operating collective investment schemes (though they may still be Alternative Investment Funds under the Alternative Investment Fund Managers Directive (AIFMD)).

2.8 While these developments may have benefits to investors, there are potentially blurred lines between loan-based crowdfunding and other business models, such as asset management. This creates a risk of regulatory arbitrage under which firms may conduct business that looks similar to asset management but under a regulatory regime that was not designed for asset management business models. We wish to explore this issue further and to understand to what extent P2P is becoming a substitute for asset management. We will wish to explore if regulation should be changed to reflect this.

2.9 We are also seeing the development of maturity mis-match products on platforms. With these, borrowers borrow on the usual terms, for loan periods of, say, five years, but investors invest in products which aim to allow investors to take out their money after a 30-day notice period. In light of this, we are keen to understand what promises of liquidity platforms make to investors, and whether an expectation gap exists between the two.

2.10 In some ways, these investment products look similar to a 30-day notice savings account. With savings accounts, banks also lend money on longer terms than the notice period. This creates a risk of savers withdrawing money without being able to realise the money from the lending. To mitigate this risk, banks are subject to far higher prudential standards and must meet minimum liquidity reserves. In practice, loan-based crowdfunding platforms cannot guarantee access after 30 days; they can only repay investors if they have money of their own available or if other investors are willing to buy the loan on the secondary market. This not only makes valuing investors' claims more difficult, but might also transfer risk from investors who leave platforms to those that stay on.

2.11 This development leads to questions over the extent to which loan-based crowdfunding platforms allow for regulatory arbitrage with banking business, without being subject to the same consumer protection requirements, or whether the way they describe their business models or the products on offer could be misleading to consumers.

2.12 We are also open to the possibility that as well as 'bank-like' or 'asset management-like' types of regulation the developments that may require a bespoke development of regulation.

> **Q1: Do you consider that there is the potential for regulatory arbitrage with banking business? If so, what measures should be considered to address it?**

Changes in the investor base

2.13 Another development in the market that appears to be taking place is an evolution in the type of investors on loan-based crowdfunding platforms.

Institutional investment

2.14 The 2015 UK Alternative Finance Industry Report notes that 26% of business loans and 32% of consumer loans were funded by institutions in 2015. As part of this, we are also beginning to see the development of asset-backed securities based on the loans on P2P platforms. There are also a number of investment trusts with mandates to invest in P2P securitisations. Earlier this year rating agencies in the USA have put some P2P securitisations on review for downgrade, so we are monitoring such securitisations for changes to loan performance or to the standard of due diligence.

2.15 We are keen to explore the implications of this trend in more detail. We would be concerned if institutional investors are granted any favourable treatment in investing compared to less knowledgeable or less experienced retail investors – for example, the chance to review and invest in loans before retail investors can do so. It is important that P2P platforms manage effectively any conflicts of interest arising from the treatment of institutional investors, and retail investors do not end up carrying a higher degree of risk.

> **Q2: Do you have any concerns about, or evidence of, differences in the treatment between retail and institutional investors?**

Innovative Finance ISA and pension investment

2.16 It became possible to hold P2P loans facilitated by fully-authorised P2P platforms in Innovative Finance ISA wrappers from 6 April 2016. Similarly, the ability of people to invest pension money in P2P loans, e.g. within a self-invested personal pension, or to use the new pension freedoms to take money out of their pensions at retirement and invest in loans, may lead to a change in the investor base.

2.17 There is anecdotal evidence that suggests P2P investors in the past were relatively wealthy or knowledgeable.[11] The availability of P2P investment through ISAs and pensions, or at retirement using money released from pensions, may create a change in the investor base toward retail

11 See, for instance, the Nesta April 2013 report, 'Banking on each other': www.nesta.org.uk/sites/default/files/banking_on_each_other.pdf, which provides information on investment on the Funding Circle platform.

investors who are less experienced or knowledgeable, who trust the ISA 'brand', and who may not fully appreciate the risks involved.

Q3: Have you seen any initial evidence that the ISA wrapper has led to consumers not fully appreciating the risks involved in Innovative Finance ISA investments?

Equality Act 2010

2.18 We will also undertake further analysis as to whether changes in the investor base have led to any concerns under the Equality Act 2010, in relation to access to finance for people with protected characteristics under the Act.

Evolution of credit offerings

2.19 While this paper is primarily focused on the investor experience of crowdfunding platforms, we do have some potential concerns in relation to the position of borrowers under consumer credit agreements or mortgage contracts on P2P platforms.

Consumer credit

2.20 Since we assumed regulation of the sector, new types of platforms have emerged offering a wider range of credit agreements. These include pawn broking (eg Unbolted or FundingSecure), guarantor lending (e.g. eMoneyHub or Guarantormyloan) and hire-purchase (e.g. Zopa Car Refinancing). There are also signs that platforms face commercial pressures to diversify into serving near-prime, and potentially sub-prime, borrowers, and to relax their creditworthiness checks as a result.

2.21 The growth of institutional investment through P2P platforms has increased the extent of 'dual regulation' in the market. This is because the investors (lending in the course of a business) are subject to the full requirements of the CCA and our own consumer credit sourcebook (CONC) applicable to lenders, and the P2P platforms are subject to some equivalent obligations under CONC. This means, for example, that the lender is required to assess the borrower's creditworthiness under CONC, and there is a parallel requirement on the platform. There is also overlap in relation to pre-contract explanations and certain post-contractual matters including in relation to notices of sums in arrears.

2.22 Where lending is not in the course of business, the agreement is a 'non-commercial agreement' for the purposes of the Consumer Credit Act 1974 and only limited CCA requirements apply. In addition in that case the lender would not need FCA authorisation or need to comply with FCA rules, since they would not be carrying on the regulated activity of consumer credit lending by way of business. We provide guidance in PERG 2.3 on what constitutes an activity carried on by way of business; in practice, we expect that most lending by institutional investors via loan-based crowdfunding platforms is in the course of a business or indeed by way of business while occasional investments made by an individual through such platforms are unlikely to be made in the course of business or by way of a business.

2.23 The rules introduced for P2P platforms in 2014, in CONC, were intended to address the unregulated nature of non-commercial agreements by applying key CCA and CONC requirements to the platform – in particular, in relation to the assessment of the borrower's creditworthiness. However, as the business models have evolved, it is appropriate to consider whether these are sufficient.

2.24 For example, the pawn-broking provisions in sections 114 and 117 – 122 of the CCA do not apply to non-commercial agreements, and the provisions on enforcement, default and termination in sections 76, 87 and 98 do not apply to non-commercial agreements in relation to which no security has been provided. In addition, the duties to give information to the borrower in sections 77, 77A and 78 do not apply to non-commercial agreements.

Q4: Are there differences in borrower protection between commercial and non-commercial agreements that would be best addressed by applying additional rules to P2P platforms, or are the existing rules adequate?

2.25 We are required to review the remaining CCA provisions and report to the Treasury by April 2019.

Mortgages

2.26 There is currently no UK P2P market for residential mortgage contracts. However, we are aware some P2P platforms are considering moving into residential secured lending. The business models of such operations might have the effect that there is no one responsible for the regulated lending activity, bypassing Mortgage and Home Finance: Conduct of Business Sourcebook (MCOB) affordability requirements and other lending responsibilities.

2.27 Investors lending through a P2P platform are not conducting a regulated activity if they do not act 'by way of business' and if that were the case the investor would not have to be authorised nor comply with FCA rules, although the platform even in this scenario may be arranging and, if relevant, may be advising. Consequently, borrowers would not have the full benefit of protection given by the FCA mortgage regime. However, PERG 4.3.7 notes, in the context of home finance activities, that even activities undertaken on an isolated occasion might be carried on by way of business.

2.28 To address any potential loophole, we propose to apply usual MCOB lending standards to P2P platforms where the investor/lender is not acting by way of business.

Q5: Do you agree with our analysis of the key developments in the loan-based crowdfunding sector over the last two years?

New business models

2.29 We conduct detailed analysis of each application for authorisation to operate a loan-based crowdfunding platform against the Threshold Conditions to ensure that firms meet rigorous standards. However, as noted above, we also need to be responsive in our regulation to ways in which the market as a whole is developing and new business models are evolving and pushing boundaries. We plan to conduct further analysis of these models to assess the potential for consumer detriment and whether the high-level business standards we apply to firms across the sector (which we set out in this section) remain relevant to the emerging business models. We will consider bringing forward proposals for additional rules in the future if necessary.

Firm systems and controls

2.30 We continue to monitor market risks in our supervision of the sector. The market has grown and evolved rapidly and there is a risk that firms' infrastructure, systems and controls may not be able to keep pace. The 2015 UK Alternative Finance Industry Report noted that:

- the potential of a collapse of one or more of the well-known platforms due to malpractice, was seen as a high risk to growth by 57% of surveyed platforms, and

- a 'cyber security breach' was viewed by 51% of the surveyed platforms as a factor that could have a very detrimental effect on the sector

Q6: Are you aware of current or emerging risks that firms' current infrastructure, systems and controls might not be adequate to deal with?

Prudential requirements

2.31 Loan-based crowdfunding firms must meet minimum prudential requirements (ie hold minimum amounts of capital) to ensure continuity of operations in the case of future financial shocks. Until 31 March 2017, the financial resources requirement is the higher of:

- a fixed minimum amount of £20,000, or
- a volume-based amount calculated as the sum of the following amounts of loaned funds outstanding:
  - 0.2% of the first £50m
  - 0.15% of the next £200m
  - 0.1% of the next £250m, and
  - 0.05% of any remaining balance above £500m

2.32 In setting out our approach to crowdfunding regulation in PS14/4, we decided to phase in a higher fixed minimum requirement of £50,000 and other elements of our prudential regime for loan-based crowdfunding firms over a transitional period. The fixed minimum requirement will rise to £50,000 from 1 April 2017. When considering a firm's application for authorisation, we review in detail their ability to meet our prudential standards in the future.

Client money rules

2.33 Money received from an investor to lend to borrowers and repayments from borrowers to be paid back to investors – whether received physically or electronically – is, while the firm is holding it, 'client money' held by the firm for or on behalf of the client in relation to investment business.

2.34 Firms that hold client money in relation to investment business are subject to the client money rules contained in our Client Assets sourcebook (CASS). These rules place a number of requirements on firms to ensure adequate protection of client money while the firm is responsible for it and in the event of the firm's insolvency.

2.35 We are supervising these requirements on an ongoing basis using our full supervisory toolkit. This means we have the tools to take action against firms and will do so if we find that they are not complying with the rules. We review in detail client money arrangements when considering a firm's application for authorisation.

Due diligence standards

2.36 As noted above, P2P platforms are required to assess the creditworthiness of borrowers including their ability to make repayments as they fall due. Institutional investors and other investors lending by way of business are subject to similar obligations. We are currently reviewing the CONC provisions on creditworthiness generally.

2.37 In other cases, where the credit agreement is not regulated under the CCA and CONC – for example where the borrower is a limited company or a business loan is more than £25,000 – firms may decide on their own approach to creditworthiness assessments.

2.38 Under either model, we expect firms to explain, in a clear and fair way, to potential investors their approach to assessing creditworthiness of borrowers and the likely risks to investors money.

2.39 In the coming months, we will work with firms to evaluate the quality of their creditworthiness assessments. We will also consider the approach adopted in Peer-to-Business (P2B) lending. Depending on the outcome of this work, we can consider whether to impose new rules in relation to creditworthiness.

2.40 Like any other firm authorised by the FCA, we expect loan-based crowdfunding platforms to have systems and controls in place to mitigate the risk that they are misused for the purposes of financial crime. Such measures will depend on a firm's own assessment so the nature and extent of risk will vary. Financial crime risk could exist on either the lender or borrower side of the transaction. Institutional investors and other investors lending by way of business to consumers or commercial financing will also need to comply with the Money Laundering Regulations 2007. The FCA's financial crime guide[12] provides guidance on our overall financial crime expectations and the Joint Money Laundering Steering Group (JMLSG)[13] provides guidance on complying with the Money Laundering Regulations.

Pooling

2.41 The development of business practices that allow increased pooling of investors is another issue that we wish to investigate in more detail. There are some consumer benefits from this development but the firms operating these platforms are not currently subject to the same requirements as asset managers running regulated pooled investment funds. Where firms' business models are more complex or opaque to investors, we may need to raise requirements. We will be looking into this further as part of our review to determine the extent to which the risk of detriment is likely and whether we need to consider changes to the rules.

Q7: Do you have any comments on our concerns over the development of new loan-based crowdfunding business models? Have there been other specific developments that are relevant to the high-level standards summarised above?

Standards of disclosure

2.42 At present, high-level rules require firms to provide potential investors with information so they are reasonably able to understand the nature of the investment and associated risks and, consequently, to take investment decisions on an informed basis. Information must be fair, clear and not misleading. It must be accurate, balanced, sufficient for the needs of the investor, presented in a way that is likely to be understood, and important information and warnings must be given clear prominence. We have included additional guidance to indicate to firms the types of disclosure we expect to see to satisfy the rules. This includes information on expected and actual default rates and the way in which firms assess creditworthiness.

12 https://www.handbook.fca.org.uk/handbook/FC/link/?view=chapter
13 http://www.jmlsg.org.uk/industry-guidance/article/jmlsg-guidance-current

2.43 Within this high-level framework, we leave flexibility for firms to determine what information to disclose and how best to disclose it, taking account of the nature of their offering and their target customer base.

2.44 We have some potential concerns about how firms are presenting information to investors. It is, for example, quite difficult to find clear information on default rates on platform websites or to understand how the likelihood of default differs depending on when a loan was originated (ie default rates by vintage). Such disclosures could make trends in underwriting standards more transparent to investors.

2.45 We plan to do additional work in the coming months to review disclosure standards, increasing our supervisory focus on standards of promotion and disclosure by firms operating loan-based crowdfunding platforms.

2.46 If necessary, we could consider whether to mandate in detail the disclosures we expect and the time that those disclosures must be provided.

Q8: Do you have any comments on the standards of disclosure on loan-based crowdfunding platforms?

Financial promotions

2.47 We are concerned that we continue to see P2P financial promotions which are not compliant with our financial promotion rules across all types of media (for example, unbalanced presentation of risks and misleading comparisons with savings accounts and banking). At the same time, we are aware that the 2015 UK Alternative Finance Industry Report indicated that 21% of P2P platforms surveyed think that our approach to online and social media promotion is 'excessive and too strict' for their platforms' activities. We are therefore keen to receive information which will help us gauge whether our current financial promotion rules for P2P promotions are sufficient, and whether firms have a good enough understanding of our rules. We would also like to understand better what the particular issues may be for platforms regarding our approach to online and social media promotions.

Q9: Are our current financial promotion rules for loan-based crowdfunding promotions proportionate? If not, can you please provide examples?

Q10: Is our approach to online and social media promotions proportionate? Do you have any suggestions as to how to improve our rules or approach on promotions?

Investor understanding

2.48 The current regulatory framework for investment-based crowdfunding includes provisions requiring firms to assess whether prospective investors have the knowledge or experience to understand the risks involved, and to check whether investors meet certain criteria before being able to invest money. We could consider applying the same approach for loan-based crowdfunding in the future.

Q11: Should we require loan-based crowdfunding platforms to assess investor knowledge or experience of the risks involved? What would a proportionate requirement look like?

Competition

2.49 Loan-based crowdfunding platforms compete with other financial firms, such as banks or consumer credit firms, for both funding and lending opportunities. The existence of this alternative intermediary channel has the potential to provide competition in the pricing of lending/savings products.

2.50 On the lending side, loan-based crowdfunding is small in comparison to the total stock of outstanding lending by banks, but it is growing quickly. The 2014 UK Alternative Finance Industry Report noted that loan-based crowdfunding lending to small businesses (excluding real estate lending) calculated as a percentage of new bank loans to small businesses rose from 1% in 2012 to 12% in 2014.[14]

2.51 This growth rate may, in part, also reflect the fact that loan-based crowdfunding platforms have widened smaller firms' access to financing channels and so increased the total stock of available finance.[15]

2.52 Loan-based crowdfunding platforms main economic advantage over banks is their lower operating costs. This should allow platforms to write loans at a smaller spread over funding rates, compensating for banks' funding cost advantages. Deloitte (2016) research suggests that the platform operating expense advantage was over 200 basis points when comparing the cost economics of illustrative bank and loan-based crowdfunding platform's loans.

2.53 Innovations at loan-based crowdfunding platforms may also act as a competitive driver to improve customer service at other financial firms. Deloitte (2016) noted that for consumers who had borrowed from loan-based crowdfunding platforms, ease of application, quick decision making and convenience were stronger drivers than competitive rates (though they also figured as a driver).[16]

Q12: What effect do you think loan-based crowdfunding has had on competition in lending and investment/savings markets?

Q13: Where do you think regulations could be amended to increase confidence in loan-based crowdfunding markets, encourage the development of the markets in the interest of consumers or increase competition by removing uneven playing fields?

14 University of Cambridge and Nesta, Understanding Alternative Finance: The UK Alternative Finance Industry Report 2014, November 2014, http://www.nesta.org.uk/sites/default/files/understanding-alternative-finance-2014.pdf

15 The 2014 UK Alternative Finance Industry Report noted that 33% of loan-based crowdfunding business borrowers believed they would have been unlikely to get funds elsewhere.

16 Deloitte, Market lending: A temporary phenomenon, 2016, https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/financial-services/deloitte-uk-fs-marketplace-lending.pdf

Wind-down plans

2.54 The current regulatory framework requires firms to have resolution plans in place so that, if a P2P platform collapses, loan repayments will continue to be administered and investors should not lose money only because of the platform's failure. We will conduct further analysis of these plans to analyse how robust they are and can, if necessary, tighten our rules.

> **Q14: Do you have any comments on the resolution plans of firms operating loan-based crowdfunding platforms?**

Recourse to the Financial Services Compensation Scheme

2.55 At present, investors do not have recourse to FSCS for the failure of borrowers to meet loan payments. Investors also do not have any recourse to the FSCS in the event that a firm operating a loan-based crowdfunding platform fails.[17] In setting out our approach to crowdfunding regulation (PS14/4), we decided not to include P2P within the FSCS jurisdiction as the additional regulatory costs would be disproportionate to the amount of loss investors might suffer if a platform failed at the time and to the amount that would be covered by the FSCS in such an event.

2.56 Even if recourse were available, the FSCS could only provide protection if:

- an FCA-authorised firm has failed and cannot meet claims against it
- the claimant is eligible to claim to the FSCS
- the claim relates to an activity protected by the FSCS, and
- the firm owes a civil liability to the claimant, e.g. it is liable to the claimant for breach of contract or in negligence – proving this may be difficult

2.57 In practice, customers might be protected in different ways and in limited circumstances only, for example if either the platform or the bank in which the money is held (prior to investment) failed before the money was invested. Customers affected in these ways should already be protected to an extent.

- In the first situation, our client money rules provide for the return of client money to clients in the event of a firm's insolvency.
- In relation to the second situation, where a bank fails, bank deposits are already subject to FSCS jurisdiction under the PRA's rules. Where a client has a claim for a deposit, it may be protected by the FSCS under PRA rules.

2.58 We are currently conducting a review into the way that the FSCS is funded and will consider in that review whether, following market growth and development, this approach remains appropriate for the P2P sector.

> **Q15: Are there any other matters we should take into account in the post-implementation review of loan-based crowdfunding?**

17 Investors do have recourse to the FSCS if they have received unsuitable regulated advice to invest.

3. Investment-based crowdfunding

3.1 In this chapter we set out an overview of the market for investment-based crowdfunding and some of the issues we are seeing at present. Readers are invited to comment on our initial thoughts about the future FCA regulation of this sector.

Summary of the current regulatory approach

3.2 Our original crowdfunding rules took a risk-differentiated approach to loan-based and investment-based crowdfunding. Firms operating investment-based crowdfunding platforms are subject to the standard FCA rules for investment firms including, for example, capital requirements and requirements in relation to the fair, clear and not misleading provision of information.[18]

3.3 There are some additional rules that apply specifically to firms selling certain types of equities and debt securities typically sold on crowdfunding platforms (which we term 'non-readily realisable securities'). These are not listed on regulated stock-markets and carry significant risks. The same securities can be sold over the internet as well as through other media, so we have rules that apply to their distribution whether or not that takes place on an investment-based crowdfunding platform.

3.4 These rules include marketing restrictions, so firms may only make direct offer promotions to retail consumers who meet certain criteria:

- those who confirm that they will receive regulated investment advice or investment management services from an authorised person
- particular types of high net worth, experienced or sophisticated investors, or
- those who confirm they will invest less than 10% of their net assets in this type of security

3.5 Our rules also require firms to check, in respect of any transaction which arises in response to marketing, whether customers have the required knowledge and experience to understand the risks if they do not take regulated advice (or receive investment management services) and to issue a clear warning to the customer where they believe investing in non-readily realisable securities may not be appropriate (this is known as the 'appropriateness test').

18 Further information about the FCA Handbook of rules and guidance can be found in the 'Reader's Guide: An introduction to the Handbook': www.fca.org.uk/static/documents/handbook/readers-guide.pdf

Changes to the investor base

3.6 Some of the trends seen for loan-based crowdfunding are also visible in investment-based crowdfunding. For example, the 2015 UK Alternative Finance Industry Report reveals increasing institutional investment on the platforms.

3.7 The report also identified that 27% of investors are classified as sophisticated or high-net-worth individuals, but that a growing number of venture capital firms and angel investors[19] are also using the platforms. In some cases, venture capital firms invest directly through the platforms, but more commonly in partnership with them. This enables venture capital firms to increase the total capital raised for each company and may support other investors by undertaking some of the due diligence. However, we would be concerned if venture capital firms were treated favourably and conflicts of interest can give rise to detriment for retail investors.

Evolution of investment offerings

3.8 According to the 2015 UK Alternative Finance Industry Report a number of new financial products have been introduced on investment-based crowdfunding platforms. These include mini-bonds, convertible notes, real estate investment trusts (REIT) and accelerator funds.

Firm systems and controls

3.9 As for loan-based crowdfunding, we would be interested in feedback over any concerns about firm systems and controls in light of the market's recent growth and evolution.

Q16: What other market developments should we take into account in our review of the investment-based crowdfunding sector?

Managing conflicts of interest

3.10 Firms operating crowdfunding platforms must manage a number of conflicts of interest, between clients raising money and clients investing money, and between their own interests and the interests of their clients. For example, it may be in the interests of firms to make available as many projects as possible, in order to maximise profit, but this may not be in the best interests of retail investors who expect higher standards of due diligence. Firms are already expected to have procedures in place to identify and manage conflicts of interest. As part of our work to review firm processes in the coming months, we will consider whether the current requirements address the issues adequately.

Q17: Do you have any comments on the management of conflicts of interest on investment-based crowdfunding platforms?

19 Business angels are high net worth individuals who invest their own money […] directly in unquoted businesses in which there is no family connection […] in the form of equity finance in the hope of achieving a significant financial return through some form of exit. Typically they will also take an active involvement in their investee businesses, offering advice, networking, working part-time or becoming a member of the board of directors." Mason, C.M. and Harrison, R.T. (2011) *Annual Report on the Business Angel Market in the United Kingdom: 2009/2010* London: Department for Business, Innovation and Skills

Due diligence standards

3.11 We have not set out the specific levels of due diligence with which firms operating investment-based crowdfunding platforms must comply. Instead we have provided flexibility to firms to develop their own approach. In some cases, it may be possible for investors to undertake their own analysis of possible investments. In other cases, the firm running the platform will undertake more of the analysis on behalf of investors. Our current rules allow either approach but we ask firms to make it clear to potential investors what analysis has been undertaken so investors can determine how much extra work they need to do.

3.12 We are potentially concerned, however, that this approach may not be working as well as it might. It appears that some businesses that successfully raise capital fail shortly afterwards.[20] While such failures are likely for the young businesses raising capital on the platforms, we are concerned about the potential for investors to be exposed to risks they are not well placed to assess in advance.

3.13 Like any other firm authorised by the FCA, we expect firms operating investment-based crowdfunding platforms to have systems and controls in place to mitigate the risk that they are misused for the purposes of financial crime. Such measures will depend on a firm's own assessment so the nature and extent will vary. Financial crime risk could exist on either on the investor or investment side of the transaction.

3.14 As part of the post-implementation review, we will further analyse the due diligence processes employed by platforms and the additional analysis undertaken by investors. If we find that investors are not in a position to protect their own interests, we may consider the feasibility of minimum due diligence standards. For example, we could consider requiring business plans to be reviewed by, an appropriate third party (bearing in mind the concerns expressed in 3.3, if that were necessary to explain the risks of the specific type of investment.

> **Q18: Do you have any comments on current due diligence standards for investment-based crowdfunding platforms?**

Client assessment

3.15 The current rules require firms to check a retail client's knowledge and experience to assess their understanding of the risks (the appropriateness test) and to classify the client under certain criteria before communicating direct offer promotions. This is subject to some exceptions, for example if the client confirms that they will receive advice in respect of the investment from an authorised person.

Appropriateness test

3.16 The appropriateness test requires firms to ask the client to provide information regarding their knowledge and experience in the investment field relevant to the specific type of product or service offered or demanded so as to enable the firm to assess whether the service or product envisaged is appropriate for the client. Where the firm determines through its appropriateness test that the investment may not be appropriate, given the client's knowledge and experience in the relevant investment field, the firm is required to clearly warn the client.

20 See, for example, the analysis in this blog: http://fantasyequitycrowdfunding.blogspot.co.uk/

3.17 The obligations do not mandate how this test is performed. The aim is to ensure that clients are aware of the risks and in a position to make informed investment decisions.

3.18 As part of the Post-implementation review, we are planning an in-depth assessment of how firms operating investment-based crowdfunding platforms are meeting this requirement and whether the client outcomes are fair. If necessary, we will consider providing more guidance or rules to help firms meet these requirements and deliver the right outcomes.[21]

Client certification

3.19 The client classification requirements in general oblige firms to assess whether the client meets certain criteria to be classified as a high net worth, experienced or sophisticated investor. Other than the 'self-certified sophisticated investor' classification, these requirements do not allow for client self-certification but place an onus on firms to make an assessment.

3.20 We plan to assess how well firms are meeting the client classification requirements and on what basis they are making assessments about whether clients meet the specified criteria. Where we find poor consumer outcomes – e.g. clients being assessed as 'sophisticated' where they do not understand the risks or are unable to conduct necessary additional due diligence – we will consider taking further action with firms, either to ensure appropriate redress or to sanction the firm. We will also consider whether it is necessary to publish additional guidance to help firms understand their obligations.

> **Q19: What do you think of the current client assessment standards on investment-based crowdfunding platforms?**

Disclosure

3.21 At present, the current disclosure requirements for firms operating investment-based crowdfunding platforms are the same as for loan-based crowdfunding platforms. These high-level rules require firms to provide potential investors with information so they are reasonably able to understand the nature and risks and, consequently, to take investment decisions on an informed basis.

3.22 As part of our work with firms this year, we will review current standards in conjunction with our assessment of the standards of due diligence offered by platforms. Should we find that the current rules are not delivering adequate standards of consumer protection, we will consider a full range of options, including taking supervisory or enforcement action with specific firms or changing the rules to introduce additional requirements and, potentially, mandatory disclosures of information and risk warnings.

3.23 Based on the outcome of the review, to help potential investors better understand the risks, we could consider whether to mandate additional disclosures, for example setting out how many businesses that raised funds have since failed and how many have had successful pay-outs. We could also consider requiring firms, when setting out the money raised so far on a pitch, only to include money contributed on the platform from persons unconnected to the business. If firms quote money raised from other sources, there is a concern that this can lead investors to believe there is more interest in an investment than is the case.

21 On 2 February 2016, the FCA wrote to the chief executive officers of firms running platforms that offer contract for difference (CFD) products, highlighting concerns with the way in which the appropriateness test was being performed in that part of the market: www.fca.org.uk/static/documents/dear-ceo-letter-cfd.pdf. Some of the observations in that letter may also be relevant here.

Q20: What do you think of the current standards of information disclosure on investment-based crowdfunding platforms?

Innovative Finance ISAs

3.24 In 2015, the Government consulted on allowing assets sold on investment-based crowdfunding platforms to be held within the Innovative Finance ISA wrapper.[22] The aim is to allow debt securities issued by companies to be held in an Innovative Finance ISA in Autumn 2016. Further work is underway to consider whether to allow equities to be held in the ISA wrapper. As with loan-based crowdfunding held within an Innovative Finance ISA, this development has the potential to lead to significant changes in the investor base for crowdfunding and may encourage less experienced or knowledgeable people to invest.

3.25 We are considering mandating the disclosure of required information in relation to ISA investments in non-readily realisable securities, such as in relation to the tax implications of the investment, Innovative Finance ISAs may involve greater risk than most other ISAs. For example, investors may lose their ISA allowance for a year if they hold equities in a business that goes on to fail.

Q21: Should we mandate the disclosure of risk warnings in relation to non-readily realisable securities held within Innovative Finance ISAs?

Q22: Are there any other matters we should take into account in the post-implementation review for investment-based crowdfunding?

22 The Treasury, 'ISA qualifying investments: consultation on whether to include investment based crowdfunding', July 2015: www.gov.uk/government/consultations/isa-qualifying-investments-consultation-on-whether-to-include-investment-based-crowdfunding/isa-qualifying-investments-consultation-on-whether-to-include-investment-based-crowdfunding and 'ISA qualifying investments: response to the consultation on whether to include investment based crowdfunding', November 2015: www.gov.uk/government/uploads/system/uploads/attachment_data/file/479564/crowdfunding_response_web.pdf

Annex 1: List of questions

Q1: **Do you consider that there is the potential for regulatory arbitrage with banking business? If so, what measures should be considered to address it?**

Q2: **Do you have any concerns about, or evidence of, differences in the treatment between retail and institutional investors?**

Q3: **Have you seen any initial evidence that the ISA wrapper has led to consumers not fully appreciating the risks involved in Innovative Finance ISA investments?**

Q4: **Are there differences in borrower protection between commercial and non-commercial agreements that would be best addressed by applying additional rules to P2P platforms, or are the existing rules adequate?**

Q5: **Do you agree with our analysis of the key developments in the loan-based crowdfunding sector over the last two years?**

Q6: **Are you aware of current or emerging risks that firms' current infrastructure, systems and controls might not be adequate to deal with?**

Q7: **Do you have any comments on our concerns over the development of new loan-based crowdfunding business models? Have there been other specific developments that are relevant to the high-level standards summarised above?**

Q8: **Do you have any comments on the standards of disclosure on loan-based crowdfunding platforms?**

Q9: **Are our current financial promotion rules for loan-based crowdfunding promotions proportionate? If not, can you please provide examples?**

Q10: **Is our approach to online and social media promotions proportionate? Do you have any suggestions as to how to improve our rules or approach on promotions?**

Q11: **Should we require loan-based crowdfunding platforms to assess investor knowledge or experience of the risks involved? What would a proportionate requirement look like?**

Q12: What effect do you think loan-based crowdfunding has had on competition in lending and investment/savings markets?

Q13: Where do you think regulations could be amended to increase confidence in loan-based crowdfunding markets, encourage the development of the markets in the interest of consumers or increase competition by removing uneven playing fields?

Q14: Do you have any comments on the resolution plans of firms operating loan-based crowdfunding platforms?

Q15: Are there any other matters we should take into account in the post-implementation review of loan-based crowdfunding?

Q16: What other market developments should we take into account in our review of the investment-based crowdfunding sector?

Q17: Do you have any comments on the management of conflicts of interest on investment-based crowdfunding platforms?

Q18: Do you have any comments on current due diligence standards for investment-based crowdfunding platforms?

Q19: What do you think of the current client assessment standards on investment-based crowdfunding platforms?

Q20: What do you think of the current standards of information disclosure on investment-based crowdfunding platforms?

Q21: Should we mandate the disclosure of risk warnings in relation to non-readily realisable securities held within Innovative Finance ISAs?

Q22: Are there any other matters we should take into account in the post-implementation review for investment-based crowdfunding?

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