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7 March 2019

May 2025 update:
This letter is historical.
See our supervisory correspondence page
for more information and current views

Dear CEO

Loan-based Peer-to-Peer (P2P) crowdfunding platforms: wind-down arrangements

We are requesting that you review the wind-down arrangements at your firm.

P2P platforms must take reasonable steps to ensure they have arrangements in place to ensure P2P agreements will continue to be managed and administered if, for any reason, the platform ceases to operate (SYSC 4.1.8AR). This requirement includes that these plans have been properly considered for the specific business model of the firm. There also needs to be sufficient funding to cover the cost of managing and administering the wind-down; and any third party that is engaged to conduct the wind-down needs to have the appropriate regulatory permissions.

Inadequate wind-down arrangements could cause considerable harm to consumers, if a P2P platform stops providing management and administration services for loans which were invested through the platform.

Risks include that investors may not receive some or all of the loan repayments for loans made through the platform, or that they will need to recover repayments directly from borrowers themselves. Individual P2P agreements typically only represent small amounts of the total amount borrowed. So, it is unlikely to be economically viable for an investor to enforce their rights against a potentially very large number of individual borrowers. Conversely, if a single loan consists of multiple P2P agreements, a borrower needs to be able to make repayments to multiple investors efficiently.

Wind-down arrangements are important safeguards should a platform decide for commercial reasons to exit the P2P sector, or if it faces any other threat to its viability.

P2P platforms are required to notify lenders of the arrangements they have made, including if the arrangements involve another firm taking over the management and administration of P2P agreements (SYSC 4.1.8BR).

We highlighted in CP18/20 'Loan-based ('peer-to-peer') and investment-based crowdfunding platforms: Feedback on our post-implementation review and proposed changes to the regulatory framework' that we had observed, at times, that platform arrangements are inadequate. We also consulted on strengthening the requirements relating to wind-down arrangements. For instance, we consulted on proposals to ensure that platforms have arrangements that take account of the practical and operational challenges to the continued provision of services to investors in a wind-down scenario. We will issue our related policy statement later this year.

However, a recent supervisory review of a sample of firms' wind-down arrangements against current requirements strongly suggests that some P2P firms are falling short of the standard required by our rules to ensure that their plans would work in practice, should they need to be implemented. We have identified 3 main areas requiring urgent attention to mitigate the harms described above.

1. Systems and controls relating to wind-down

Some firms are not taking reasonable steps to put arrangements in place, as required by existing rules.

Arrangements will likely be very firm specific and may include for example:

- entering into an arrangement with another firm to take over the management and administration of P2P agreements
- holding sufficient collateral in a segregated account to cover the cost of management and administration while the loan book is wound down
- entering into an arrangement for another firm to act as guarantor for the P2P agreements which includes a legally enforceable arrangement to meet the costs of the wind-down in full
- managing the loan book in a way that ensures income from P2P agreements facilitated by the firm is sufficient to cover the costs of managing and administering those agreements during the winding down process, taking into account the reduction of the loan pool and fee income from it

When reviewing whether your firm's wind-down plans (WDPs) are adequate and effective, you may find it helpful to consider the guidance in our Wind-down Planning Guide (WDPG). We have repeated elements here, but we recommend that you refer to the full guidance.

A platform should develop realistic scenarios in which its business would no longer be viable. For each scenario, firms should identify and monitor the triggers that would invoke an orderly wind-down.

The triggers that would invoke a wind-down scenario may be determined by the identification of a firm's 'risk fault lines', which are critical areas whose failure would severely affect the business. For example, the loss of a key revenue driver might trigger a wind-down scenario as could the loss of critical infrastructure or the event of market volatility on exposed business lines (WDPG App 5.1.1).

Firms should then ensure that management information is able to detect the crystallisation of risk in the identified fault lines and trigger the implementation of a wind-down plan.

We have found little evidence that firms are identifying and monitoring such triggers. It is difficult to see how many platforms would know when to invoke their WDPs at the appropriate point.

Furthermore, we found evidence that some platforms did not have appropriate governance arrangements to develop and maintain the WDPs reviewed. These plans are more likely to be effective if each business area's needs and requirements are factored into the wind-down planning process [WDPG App 3.1.3G].

We found limited evidence that the platforms we reviewed had undertaken due diligence on back-up service providers (BSPs), where these are an integral part of their WDPs. It is important to consider whether such BSPs have the capability, relevant permissions, expertise and capacity to support wind-down arrangements. The scope of the service provided, and how it would be deployed in practice, was also unclear.

Many platforms we assessed had not considered the tax implications of a wind-down. For example, where a particular tax status is offered under the contractual terms, failure to follow the correct processes may result in IFISA investors being at risk of losing the associated tax benefits.

Platforms holding client money also need to ensure that any relevant and appropriate arrangements are in place for this should a book of administered loans be transferred.

Robust IT systems are at the heart of P2P lending. Not all the platforms we reviewed had appropriately considered system continuity during wind-down, and the technical staff required to support this. Where BSPs are involved, access arrangements and licensing agreements for the timely transfer of data are likely to be critical.

2. Platform funding and remuneration models

Firms should consider how their wind-down plans will be funded. How this is achieved is for each platform to consider based on its own business model.

Failing platforms are likely to experience a dwindling amount of fee and spread income from the loan books they manage.

We are concerned that the way some platforms are remunerated may not be helpful to supporting an orderly wind-down. For example, some P2P platforms are mainly funded with up-front fees and charges when loans are originated, with relatively little or no residual income throughout the life of the loan. This means that the platform relies on income from new loans to fund its operations.

This can make a sale of the business a difficult proposition and make administration of the firm an unattractive proposition to many Insolvency Practitioners.

Wind-down plans should be able to demonstrate how the expenses of a wind-down will be covered, including how any third party would be remunerated. They should consider whether sufficient financial resources are available from the operation of the loan book, set aside or are reliably accessible in a wind-down scenario. It is not appropriate to assume that a wind-down could be funded by the continued accumulation of new business.

3. Third-party permissions required for wind-down

Where a platform's wind-down arrangements include entering into an arrangement with another firm to take over the management and administration of P2P agreements, the platform should consider:

i) what regulated activities the other firm would be carrying out if the wind-down arrangements were initiated
ii) do/will they have the appropriate permissions to carry out those activities

The answer to these questions will be case-specific and platforms may find expert advice helpful. Platforms whose wind-down arrangements depend on other firms servicing their book of administered loans should review their WDPs together with those other firms.

Next steps

We expect you to ensure that your firm reviews and, where necessary, improves WDPs. Platforms should apply a methodical approach to assessing their systems and controls for wind-down. They can use our WDPG to support their review.

We will ask certain firms to respond to us and provide details of their revised WDPs. We will also give specific feedback to those platforms whose WDPs we assessed as part of our supervisory work.

You must notify us at the earliest opportunity if the ongoing viability of your business is threatened.

Yours faithfully,

Andrew Bailey
Chief Executive