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Dear Board,

FCA expectations for Loan-based Peer-to-Peer Lending platforms

Under our integrated regulatory structure across the whole of Supervision, Policy and Competition in the FCA, Loan-based Peer-to-Peer Lending (P2P) is now supervised by the Consumer Investments Directorate.

This letter outlines the harms to consumers and markets most likely to arise from P2P business models, and our strategy to address those harms. You should consider whether the risks of harm below are present in your firm and adopt strategies for mitigating them. In any future supervisory engagement with you, we will consider whether you, the Board, and Senior Managers, have taken appropriate action to ensure that consumers and markets are adequately protected from these harms.

We will increasingly use data, already provided through regulatory returns, but now supplemented by direct information requests and intelligence, to assist in identifying outlier firms that pose a heightened risk of harm, whether deliberately or not, and engage with them to mitigate any harm or potential harm.

Key areas of focus for P2P firms

[PS22/10: Strengthening our financial rules for high-risk investments and firms approving financial promotions](#)

A key feature of PS22/10 was to improve the customer journey into restricted mass market investments (which include P2P agreements) through:

- strengthening risk warnings
- banning inducements to invest
- introducing positive frictions including a cooling-off period, and
- improving client categorisation and appropriateness testing

These rules are designed to ensure that firms communicating and approving financial promotions do so to a high standard, ensuring consumers receive high-quality financial promotions that enable them to make effective, well-informed investment decisions.

Following a review of the risk warnings of firms within the Peer-to-Peer and Investment-based Crowdfunding (IBCF) portfolios in December 2022 we found that the level of compliance was far below the standard we expect. This was reported in our [financial promotions quarterly data](#)

for Q1 2023. As a result, we looked more deeply at how firms had implemented the remaining rules from 1 February 2023.

The findings of our review can be found [here](#) along with examples of good and poor practices that we found.

What we expect of you:

We expect all firms to review our findings, including our good and poor practice examples, and make any changes needed to meet our expectations and improve consumer understanding and ensure good outcomes.

What we will do:

We will proactively engage with firms in the portfolio to ensure that the new rules in PS22/10 have been fully embedded. Where we find weaknesses or failings, that result in poor consumer outcomes, and where there has been the potential for harm, or actual harm to investors, we will be quick to intervene and seek redress for investors. As a reminder where firms identify potential or actual harm proactively, we expect to be notified of that, with a plan for mitigation.

Wind-down plans, their triggers, and liquidity monitoring

In our May 2021 letter, the risk of disorderly wind-down and the potential risks of increased financial losses to investors on platforms was of significant concern to us. We engaged with all firms in the portfolio to strengthen their wind-down plans, include triggers that were appropriate and effective, and introduce liquidity monitoring along with an agreed 'liquidity buffer' that would help facilitate a solvent wind-down.

All firms engaged with us and responded in setting individual levels of adequate liquid resources. Firms' senior management also committed to regularly reviewing these absolute minimum levels of liquid and capital resources which, if breached, would trigger a wind-down.

We revisited this issue in November 2022 following a particularly challenging economic environment. Again, all firms responded to our request confirming their most recent reviews of adequacy and outcomes, any changes to the level of ring-fenced liquid resources held, an explanation of any changes, and any amendments to wind-down plans.

The current economic environment, with sustained high interest rates and cost of living crisis, is increasing financial pressures on firms and the risk of disorderly wind-down remains a prominent concern to us.

What we expect of you:

All firms need to identify absolute minimum levels of liquid and capital resources which, if breached, will trigger a wind-down. Liquid resources are critical for firms' survival and to help ensure that they can wind down in an orderly manner. Firms should monitor their financial health as part of appropriate systems and controls and maintain adequate financial resources at all times. We expect you to, at least annually:

1. Complete an assessment of adequate liquid resources that would facilitate an orderly wind-down,

2. Confirm that sufficient levels of liquid resources are held to implement a wind-down, if necessary, and that these are held appropriately, ring-fenced for the sole purposes of wind-down, and
3. Conduct a review of the Firm's wind-down plan for suitability, including an assessment of the triggers that could prompt a wind-down and that these are still relevant.

What we will do:

We will continue to ask firms for their wind-down plans through our supervisory work. Where we determine that a firm has not adequately prepared for an orderly wind-down, or where we think there are insufficient levels of capital or liquid resources, we will not hesitate to require an injection of capital and consider whether it is still appropriate to continue offering new loans to retail investors.

To underpin this work we are asking firms to complete a **Self-Certification Attestation**, which is a firm's formal statement that it will take, or has taken, any action we require. This should be signed by the most appropriate senior individual(s) who has the necessary oversight to ensure the required actions are completed.

We use attestations as a supervisory tool to ensure that regulated firms, and senior individuals within them, are clearly accountable for taking the actions we require. This is in line with our emphasis on individual as well as firms' accountability and ensuring senior individuals are answerable for action. We ask you therefore to identify the most appropriate senior individual(s) within your firm to be accountable for these actions described above, and to please advise us of who they are at Portfolioletters@fca.org.uk.

We will then provide, separately, a template for them to complete and return to us as confirmation that the review has been carried out.

Consumer Duty

Most importantly the [Consumer Duty](#) came into effect in July 2023 and this will be a key focus for how we will supervise firms in the P2P portfolio.

What we expect of you:

We expect you to have implemented the Consumer Duty in full, which requires you to put the needs of your consumers first and deliver good customer outcomes. Our supervisory focus aligns with the Consumer Duty outcomes, for example:

Consumer understanding: Firms need to ensure that investors fully understand all aspects of the investment they are making (e.g. its inherent illiquidity, risk of capital loss, lack of FSCS protection) and are aware of the extent of due diligence undertaken by the platform.

We expect firms to do due diligence on the borrower, purpose of loan and any security and have assessed it as an appropriate investment for retail investors. We also expect that the investors are provided with complete and correct information to make an informed decision.

We have come across examples where borrowers seek to raise loans for a number of inter-connected entities on platforms. Given the risks to consumers where this does happen, platforms need to be very clear that the decision to promote the loan is appropriate and that the appropriate controls are in place. For example, any conflicts of interest need to be managed properly to avoid foreseeable harm. This is because investors in these multiple loans could be exposed unknowingly to concentration risk and a higher risk of greater losses from multiple defaults, as a result of contagion amongst the connected portfolio of loans. This applies equally to platforms where investors choose which loans to invest in and to platforms that create a portfolio of loans for investors.

Products and services: Firms need to apply an appropriate level of due diligence in relation to the loans they offer before marketing such loans to investors, to ensure an investor can select an investment or portfolio with a risk profile that is aligned to their needs and avoiding foreseeable harm. Firms must have a risk management framework in place that is appropriate to the nature, scale and complexity of its business. This framework should cover investments made both on primary and secondary markets and identify any potential conflicts of interest that need to be managed or brought to investors' attention.

Price and value: Platforms that are required to produce Outcomes Statements need them to be accessible, capable of being understood by their investors and clear about performance. Platforms that are exempt from this requirement still need to be very transparent about performance. Equally firms need to be clear about platform fees, charges and priority over recoveries. We have raised concerns previously that where a platform enters an insolvency procedure, a solvent wind-down, a temporary liquidity event or similar situation and changes are made to fees, charges and order of recoveries, then these should be communicated clearly and promptly to investors. There must also be a sound legal basis for making the changes.

Consumer Support: Firms need to provide support that meets their consumer's needs, including those with characteristics of vulnerability, throughout the life of the product or service. Firms must review their communication systems, including complaints procedures and remove any unreasonable barriers, to make sure they align with expectations under the Consumer Duty.

What we will do:

We will use the Consumer Duty where we see the need to intervene assertively to prevent a harm arising or where a harm has occurred. Where required, we will be confident in using formal tools, for example to restrict business activity and seek redress for investors.

Next steps

Data is an increasingly important facet of our supervisory approach and we intend to develop our bespoke data further in this sector. In line with other portfolios, we plan to issue data requests to firms that will supplement our regulatory returns, helping us to better monitor firms' behaviours and business models, identifying outliers and allowing us to make judgements on those that pose the greatest risk of harm. This approach will also allow us to spot potential harms earlier, intervening quicker and more assertively where required.

As a Board you are responsible for the governance and oversight in ensuring your firm meets its regulatory requirements and expectations set out above. You should take all necessary actions to ensure that senior managers are accountable in delivering on this.

We look forward to receiving your nomination(s) for the senior individual at your firm that will be responsible for the attestation relating to wind-down plans referred to above.

Should you have any queries please contact us on 0300 500 0597 which is your primary point of contact for your firm's interaction with the FCA. Further contact details can be found [here](#).

Yours sincerely,

Lucy Castledine

Director for Consumer Investments