

## MEMORANDUM

**TO:** Public Comments on SEC Regulatory Initiatives Under the JOBS Act:  
Title III - Crowdfunding

**FROM:** Cristie L. March, Senior Adviser  
Office of the Chair

**DATE:** January 16, 2013

**SUBJECT:** Crowdfunding

On January 16, 2013, Chair Walter, Cyndi Rodriguez, Cristie March, Lona Nallengara, Jim Burns, and Joe Furey met with Candace Klein (CEO, SoMoLend), Douglas Ellenoff (Partner, Ellenoff, Grossman, & Schole), Samir Desai (CEO, Funding Circle), and Lisa Griffiths (Vice-President, Development, Funding Circle) to discuss various issues regarding crowdfunding.

## Funding Circle: A Short Introduction

---

### 1. Funding Circle: an online UK SME business loans exchange

Funding Circle is the leading UK business loans exchange where retail investors and savers can lend directly to businesses.

- Almost £70m loans have been originated to over 1,300 creditworthy businesses through the platform since launch in August 2010; we are currently facilitating £7m a month
- Funding Circle forecasts that loan origination growth will continue to grow rapidly on the platform as it increases its share of SME lending – we are currently only lending ~ 0.1% of total SME lending.
- Funding Circle has raised £13.2m capital to date from prominent investors including:
  - Venture Capitalists Index Ventures and Union Square Ventures
  - UK entrepreneurs Charles Dunstone (Carphone Warehouse), Jon Moulton (Better Capital), Edward Wray (Betfair) and Andrew Homer (Towergate Insurance).

### 2. Lenders

Each loan on Funding Circle is funded by a number retail investors and institutions (~600 investors lend against any one loan), who either choose specific businesses to lend to (through auction participation or buying loan parts in our secondary market) or set an automatic tool to lend to businesses that meet certain criteria. Funding Circle offers an attractive proposition for investors for various reasons:

- **Yield:** The ability to generate 6-7% stable, unlevered returns net of bad debt and management fee.
- **Diversification:** Funding Circle offers the ability to diversify across hundreds of different borrowers.
- **New asset class:** Investors can access a previously inaccessible asset class with the potential for uncorrelated returns
- **Liquidity:** Monthly amortisation schedules provide an attractive option relative to lock-up periods / lower liquidity in typical private lending funds / facilities. Lenders can also liquidate parts of their portfolio by selling their loan parts on the secondary market. It takes on average less than 30 minutes to sell a loan part when it is sold at par value.
- **Low management costs:** management fee of 1% of outstanding loans; automated tool requires little time investment.
- **Social benefits:** Many value the ability to help small businesses access capital.

Both central and local government have now committed to lend to SMEs through Funding Circle:



In December 2012, BIS announced a commitment to lend to SMEs through Funding Circle. Subject to parliamentary approval and agreement of legal terms, the Government will lend £20m to small businesses through Funding Circle.



In November 2012, Lancashire County Council committed to lend £100,000 to local businesses who apply for finance through Funding Circle.

## 3. Businesses

Our businesses are typically family-run businesses, with ~8 employees who are often struggling to find finance due to banks' tightened lending. Businesses enjoy using Funding Circle, as it is quicker than traditional lenders; transparent; more convenient – as applications can be made online; and the businesses enjoy a direct relationship with our account managers and underwriters.

All the businesses listed on the marketplace are creditworthy and have been trading for at least two years, although typically they will have been trading for at least 15 years. They all have at least £100,000 turnover. All business applications are subject to a thorough underwriting process before making it onto the Funding Circle platform. They are listed on the platform by risk band (A+ to C) with information about their business, finances (including filed accounts) and assets, where appropriate, in order that lenders can choose who to lend to.

Case studies:

Funding Circle has a strong record in helping British businesses raise the finance they need so they can grow and employ more people. Here are just a few examples of businesses we have supported.

You can see more on our YouTube channel at: <https://www.youtube.com/user/FundingCircle1>



**30 new jobs created**  
**£50,000 loan in 14 days**  
TM Care Ltd

*The demand for supported living has increased in line with the government policy to integrate people with learning difficulties into the community, instead of care homes.*

*This loan through Funding Circle has quickly allowed us to act on this, extending our residential offering. We expect this additional service will create another 30 jobs within our company.*



**Capitalising on export opportunities**  
**£75,000 loan in 18 days**  
Welland Power Engineering

*This engineering company, assembling generators in the Lincolnshire area, sought funding to capitalise on the strong export market growth.*

*Charlie Farrow, Director, said 'Getting funding from the banks has proved increasingly difficult, despite our financials and credit history being extremely strong. Funding Circle has opened up a whole new avenue for finance for us – and one that has proven much faster and easier than traditional lenders.'*



**Capturing seasonal demand**  
**£50,000 loan in 14 days**  
Taggs Boatyard Ltd

*Business is highly seasonal for Taggs Boatyard, but ahead of the summer rush, their bank refused to help them with finance solutions, despite being a strong business and having dealt with the same bank for 11 years.*

*The Funding Circle loan was finalised in 14 days and enabled this business to invest in further boats quickly, in time for the unseasonably hot Spring. The net result for Taggs Boatyard has been the best April on record.*

## 4. Loan products

Funding Circle offer different loan products from £5,000 - £500,000 across a term of 1,3 or 5 years:

- Unsecured loan, with personal guarantee (up to £100,000)
- Secured loan with all assets security agreement (up to £500,000)
- Secured asset finance loan (up to £500,000)
- Property loans – typically second charge loans on a commercial property portfolio (up to £500,000)
- All loans amortise monthly, allowing investors to reinvest in new businesses
- Maximum loan sizes will continue to increase over the next few years up to ~£5m

## 5. The role of Funding Circle

Funding Circle's role is to enable, screen, arrange and service:

1. Funding Circle enables individuals to lend to small businesses:
  - Attracts businesses and investors to the platform through marketing
  - Creates and manages the technological requirements for the online platform
  - Manages client accounts on trust
2. Funding Circle screens the borrowers and the lenders:
  - Conducts AML and fraud checks on both businesses and investors
  - Collects information from potential businesses and credit reference bureaus
  - Have an experienced underwriting team credit assesses every application and assign a grade before it can be listed on the platform
  - Provide investors with key information in a useful format.
3. Funding Circle arranges the loans, ensuring legal compliance and necessary registrations by:
  - a. Create and maintain standardised loan contracts and any other legal documents required (e.g., legal mortgage, loan part transfer)
  - b. Register charges for secured loans with the necessary bodies
4. Funding Circle services the loans to ensure that payments are made by:
  - a. Manage direct debit payments on a monthly basis and ensuring investors are paid
  - b. Put in place comprehensive back-up arrangements to ensure that the loans will continue to be paid to the investors if Funding Circle were to cease trading.
  - c. Manage recoveries, including court proceedings in the instance that the business fails to make its repayments.

## 6. Regulation

Funding Circle co-founded the government-endorsed Peer-to-Peer Finance Association. Christine Farnish is the Association's Chair. She has a wealth of experience of regulation and financial services:

- Current Chair of Consumer Focus, statutory consumer champion for England, Wales and Scotland.
- Previously the Financial Service Authority's first Consumer Director;
- Has held senior roles at Barclays and the National Association of Pension Funds
- Served on the boards of the Office of Fair Trading and the Advertising Standards Authority.

Membership of the Peer-to-Peer Finance Association is subject to Rules and members must comply with the Association's Operating Principles – in brief below, and in further detail in the appendix:

1. Senior management systems and controls;
2. Minimum capital requirements based on Operating Costs (with a minimum of £100,000);
3. Segregation of participants' funds;
4. Clear rules governing use of the platform, consistent with these Operating Principles;
5. Marketing and customer communications that are clear, fair and not misleading;
6. Secure and reliable IT systems;
7. Fair complaints handling;
8. The orderly administration of contracts in the event a platform ceases to operate; and
9. Appropriate credit assessment and anti-fraud measures including CIFAS membership (see [http://www.cifas.org.uk/cifas\\_members](http://www.cifas.org.uk/cifas_members))



In December 2012, the government announced that a regulatory framework will be established for peer-to-peer lending. Funding Circle and the Peer-to-Peer Finance Association will be working closely with HM Treasury and the financial regulator, the Financial Conduct Authority, to support the development of this framework which is expected to come into place in early 2014.

Further information on the Peer-to-Peer Finance Association is given in the appendix following:

1. The Rules of the Peer-to-Peer Finance Association
2. The Bye-Laws of the Peer-to-Peer Finance Association
3. The Operating Principles of the Peer-to-Peer Finance Association

## THE RULES OF THE PEER TO PEER FINANCE ASSOCIATION

These Rules were made on 7 July 2011.

### 1. Name

These Rules establish the Peer to Peer Finance Association ("the Association").

### 2. Definitions

#### 2.1 In these Rules:

"Chairman" means the person appointed from time to time to be the chairman of the Association in accordance with Rule 9.6;

"Management Committee" means the committee of Members appointed under Rule 9 to manage the Association;

"Members" means the persons admitted from time to time to membership of the Association in accordance with Rule 5;

"Operating Principles" means the operating principles of the Association governing the operation of Platforms, to which the Members subscribe from time to time;

"Peer to Peer Finance" means any funding arrangement that comprises direct, one-to-one contracts between a single recipient and multiple providers of funds, where the majority of providers and borrowers are consumers or small businesses;

"Platform" means an electronic system that facilitates Peer to Peer Finance;

2.2 Words denoting the singular number include the plural number and vice versa; words denoting the masculine gender include the feminine gender; and words denoting persons include bodies corporate (however incorporated) and unincorporated, including unincorporated associations of persons and partnerships.

### 3. Objects

The objects of the Association are:

(a) set minimum standards of good practice, particularly for the protection of consumers and small business customers;

(b) Promote the effective regulation of Peer to Peer Finance;

(c) to generally encourage the growth and development of, and participation in, Peer to Peer Finance;

(d) to promote, improve, develop, safeguard and support the interests of Peer to Peer Finance and the Members;

(e) such other benefits to its Members as it shall think fit;

(f) to make bye-laws concerning the operation of the Association including without limitation byelaws concerning disciplinary procedures that may be taken against the Members;

(g) to make the Operating Principles;

**(h)** to discipline Members for non-compliance with the Rules, bye-laws and/or the Operating Principles;

**(i)** to do all such other things as the Management Committee thinks fit to further the interests of the Association, or as are otherwise incidental or conducive to the attainment of all or any of the objects stated in this Rule 3.

### 4. Application of Surplus Funds

4.1 The Association is a non-profit-making organisation. Subject to Rule 19.3, the income and property of the Association shall be applied solely towards promoting the Association's facilities and in furtherance of the Association's objects as set forth in these Rules no portion thereof shall be paid or transferred, directly or indirectly, to the Members of the Association.

4.2 Nothing in Clause 4.1 shall prevent the Association from entering an agreement with a Member

## Appendix: Further information on the Peer-to-Peer Finance Association

for the supply by him to the Association of goods or services or for his employment by the Association, provided that such arrangements are approved by the Management Committee (without the Member being present) and are agreed with the Member on an arm's length basis.

### 5. Membership

#### 5.1 Eligibility for Membership

5.1.1 Any legal entity that operates a Platform is eligible for membership of the Association provided that entity is established in the United Kingdom.

5.1.3 The number of Members is unlimited.

#### 5.2 Admission of Members

Any person who wishes to become a Member must submit an application in such form as the Management Committee shall decide in its absolute discretion. Every candidate for membership shall be considered by the Management Committee, which shall, in its absolute discretion, decide whether to admit that candidate as a Member.

#### 5.3 Conditions of Membership

5.3.1 Each Member agrees as a condition of membership to be bound by and subject to these Rules, the Operating Principles and the bye-laws.

5.3.2 Neither these Rules nor the Operating Principles are intended to confer a benefit on any third party and the Members do not intend that any term of these Rules or the Operating Principles should be enforceable, by virtue of the Contracts (Rights of Third Parties) Act 1999, by any person who is not a party to these rules.

5.3.3 The Management Committee may subject to Clause 7 terminate the membership of any Member, or impose any other sanction it determines to be appropriate, in connection with the breach of any condition of membership set out in this rule.

#### 5.4 Classes of Members

5.4.1 There shall only be one class of Member of the Association: Full Member.

5.4.2 Only Full Members shall be entitled to receive notice of, attend and vote at general meetings.

A Member other than a Full Member shall be entitled to all the other privileges of membership relevant to this class of membership but shall not have the right to receive notice of, attend and vote at general meetings.

#### 5.5 Subscriptions

5.5.1 The entrance fee and annual subscription for each type of Member shall be determined from time to time by the Management Committee.

5.5.2 The Members shall pay any entrance fee and annual subscription fees set by the Management Committee from time to time.

5.5.3 No candidate who has been elected a Member shall be entitled to the privileges of membership until he has paid the entrance fee (if any) and his first annual subscription.

5.5.4 Any Member whose entrance fee or subscription is not paid by such date as the Management Committee shall decide each year shall be deemed to have resigned his membership of the Association.

### 6. Resignation

A Member may withdraw from membership of the Association on clear notice to the Association.

Membership shall not be transferable in any event and shall cease immediately on death or dissolution or on the failure of the Member to comply or to continue to comply with any condition of membership set out in these Rules.

### 7. Expulsion

7.1 Subject to the remaining provisions of this rule, the Management Committee shall have power to refuse membership or expel a Member if it in its sole and absolute discretion determines that it would be in the interests of the Association to do so.

## Appendix: Further information on the Peer-to-Peer Finance Association

7.2 A Member shall not be expelled unless he is given 14 days' written notice of the meeting of the Management Committee at which his expulsion shall be considered and written details of the complaint made against him.

7.3 The Member shall be given an opportunity to appear before the Management Committee to answer complaints made against him. The Member must not be expelled unless at least two-thirds of the Management Committee then present vote in favour of the Member's expulsion.

7.4 The Member may appeal against the Management Committee's decision by notifying the Management Committee who shall put the matter to the Association's Members in general meeting and decided by a majority vote of Members present and voting at such meeting.

### 8. Effect of Resignation or Expulsion

8.1 Any person ceasing to be a Member forfeits all right to and claim upon the Association, its property and its funds and he has no right to the return of any part of his subscription.

8.2 The Management Committee may refund an appropriate part of a resigning Member's subscription if it considers it appropriate taking account of all the circumstances.

### 9. The Management Committee

9.1. The Association shall be managed by a Management Committee consisting of:

9.1.1 the Chairman;

9.1.2 no more than one director of each of the other Members.

The members of the Management Committee may exercise all of the powers of the Association for the purposes of the management of the Association.

9.2 The Association agrees that each member of the Management Committee will be required, as a condition of appointment, to agree to be bound by and subject to these Rules and the Operating Principles.

9.3 The members of the Management Committee may delegate any of the powers that are conferred on them by these rules to such person, or committee, by such means (including power of attorney), to such extent, in relation to such matters and on such terms and conditions as they think fit. If the members of the Management Committee specify, any such delegation may authorize further delegation of members' powers. The members of the Management Committee may revoke any delegation or alter its terms and conditions.

9.4 A Member shall be deemed to have vacated office as a member of the Management Committee if:

9.4.1 he or it (as the case may be) becomes bankrupt or insolvent or makes any arrangement or composition with his or its creditors generally; or

9.4.2 a registered medical practitioner who is treating that person gives a written opinion to the Management Committee stating that that person has become physically or mentally incapable of acting as a member of the Management Committee and may remain so for more than three months; or

9.4.3 by reason of that person's mental health, a court makes an order which wholly or partly prevents that person from personally exercising any powers or rights which that person would otherwise have; or

9.4.4 he or it (as the case may be) resigns his or its office by notice to the Association; or

9.4.5 he or it (as the case may be) shall without sufficient reason for more than three consecutive meetings of the Management Committee have been absent without permission of the Management Committee and the Management Committee resolves that his or its office be vacated; or

9.4.6 he or it (as the case may be) is requested to resign by not less than two-thirds of the other Management Committee members acting together.

9.5 Any Member who has any conflict of interest with the Association must state in writing to the Association all such interests. Failure to do so will lead to automatic disqualification from

## Appendix: Further information on the Peer-to-Peer Finance Association

### Management Committee membership.

9.6 Each Member shall be entitled to hold the office of Chairman for one year, the first such term starting on the date of these Rules. The first Chairman shall be determined by the Members drawing lots. Each successive Chairman shall be determined according to the length of membership of the Member who has not yet served as Chairman. If a Member is unwilling to take up its right to act as Chairman, the right shall pass to the next longest serving Member.

### 10. Proceedings of the Management Committee

10.1 Management Committee meetings shall be held as often as the Management Committee thinks fit provided that there shall not be less than 4 meetings each year. The quorum for such meetings shall be 2. The Chairman shall have discretion to call emergency meetings of the Management Committee if the Chairman considers it to be in the interests of the Association. The Chairman shall give all the members of the Management Committee not less than 21 days' notice of a meeting.

10.2 The Chairman shall be the chairman of the Management Committee. Unless he is unwilling to do so, the Chairman shall preside at every meeting of the Management Committee at which he is present. But if there is no person holding that office, or if the Chairman is unwilling to preside or is not present within five minutes after the time appointed for the meeting, the members of the Management Committee present may appoint one of their number to be chairman of the meeting.

10.3 Decisions of the Management Committee shall be made by a simple majority. For the avoidance of doubt, the Chairman (or the acting chairman of that meeting) shall not have any casting or additional vote.

10.4 The Management Committee may from time to time appoint from among its number such subcommittees as it considers necessary and may delegate to them such of the powers and duties of the Management Committee as the Management Committee may determine. All sub-committees shall periodically report their proceedings to the Management Committee and shall conduct their business in accordance with the directions of the Management Committee.

10.5 The Management Committee shall be responsible for the management of the Association and shall have the sole right of appointing and determining the terms and conditions of service of employees of the Association. The Management Committee shall have power to enter into contracts for the purposes of the Association on behalf of all the Members.

10.6 Every member of the Management Committee, employee or agent of the Association shall be indemnified by the Association and the Management Committee shall pay all costs, losses and expenses which any such member of the Management Committee, employee or agent may incur or for which he may become liable by reason of any contract entered into or act or thing done by him in good faith as such member of the Management Committee, employee or agent in accordance with the instructions of the Management Committee or of a general meeting of the Association or otherwise in the discharge of his duties. The Management Committee may give to any member of the Management Committee, employee or agent of the Association who has incurred or may be about to incur any liability at the request of or for the benefit of the Association such security by way of indemnity as may seem expedient.

10.7 Any member of the Management Committee may participate in a meeting of the Management Committee by way of video conferencing or conference telephone or similar equipment which allows every person participating to hear and speak to one another throughout such meeting. A person so participating shall be deemed to be present in person at the meeting and shall accordingly be counted in the quorum and be entitled to vote. Such a meeting shall be deemed to take place where the largest group of those participating is assembled or, if there is no such group, where the chairman of the meeting is.

### 11. Annual general meeting

11.1 The annual general meeting of the Association shall be held at such time as the Management

## Appendix: Further information on the Peer-to-Peer Finance Association

Committee shall decide each year to transact the following business:

11.1.1 to receive the Chairman's report of the activities of the Association during the previous year;

11.1.2 to receive and consider the accounts of the Association for the previous year;

11.1.3 to elect the members of the Management Committee;

11.1.4 to decide on any resolution which may be duly submitted in accordance with Rule 11.2 below;

11.1.5 to deal with any other matters which the Management Committee desires to bring before the membership.

11.2 Notice of any resolution proposed to be moved at the annual general meeting shall be given in writing to the Chairman not less than 28 days before the meeting.

11.3 No period greater than fifteen months shall elapse between one annual general meeting and the next.

### 12. Extraordinary general meetings

An extraordinary general meeting may be called at any time by the Management Committee and shall be called within 21 days of receipt by the Chairman of a requisition in writing signed by not less than two-thirds of Members, stating the purposes for which the meeting is required and the resolutions proposed. If an extraordinary general meeting is called after receipt of a Members' requisition the only business to be transacted at that meeting shall be the resolutions proposed in the requisition. If a Members' requisitioned meeting is not called before the expiry of a period of 21 days commencing on the date of the request, the Members requisitioning the meeting may call the meeting at any time before the expiry of two months commencing on the date of that request.

### 13. Procedures at the annual and extraordinary general meetings

13.1 The Chairman shall send to each Member at his last known address written notice of the date, time and place of the general meeting together with the resolutions to be proposed and, in the case of an annual general meeting, the names of the persons proposed to be elected as members of the Management Committee for the ensuing year at least 21 days before the meeting. The accidental failure to give notice to any person entitled to notice, or the accidental omission of any such details in any notice, shall not invalidate the proceedings at the meeting.

13.2 The quorum for the annual and extraordinary general meetings shall be 2 Members. No business other than the appointment of the chairman of the meeting shall be transacted at the general meeting if the persons attending it do not constitute a quorum.

13.3 The Chairman shall preside at all meetings of the Association but if he is not present within 15 minutes after the time appointed for the meeting or has signified his inability to be present at the meeting, the Members present and entitled to vote may choose one of the other members of the Management Committee present to preside and if no other member of the Management Committee is present or willing to preside the Members present and entitled to vote may choose one of their number to be chairman of the meeting.

13.4 If the persons attending an annual or extraordinary general meeting do not constitute a quorum within half an hour of the time at which the meeting was due to start, or if during a meeting, a quorum ceases to be present, the Chairman of the meeting must adjourn it. The Chairman of the meeting must adjourn the meeting if directed to do so by the meeting. When adjourning an annual or extraordinary general meeting the Chairman of the meeting must specify the time and place to which it is adjourned or state that it is to continue at a time and place to be fixed by the members of the Management Committee. The Chairman must have regard to any directions as to the time and place of any adjournment which have been given by the meeting. If the continuation of an adjourned annual or extraordinary general meeting is to take place more than 14 days after it was

adjourned the Association must give at least 7 days' notice to the persons to whom notice of the

## Appendix: Further information on the Peer-to-Peer Finance Association

Association's meetings is required to be given in accordance with rule 13.1. No business can be transacted at adjourned annual or extraordinary general meetings which could not properly have been transacted at the meeting if the adjournment had not taken place.

13.5 Members of the Management Committee may attend and speak at annual or extraordinary general meetings. The Chairman of the meeting may permit other persons who are not Members to attend and speak at a meeting.

13.6 Each Full Member present shall have one vote and resolutions shall be passed by a simple majority of those Members present and voting.

13.7 No objection may be raised as to the qualification of any person voting at a meeting except at the meeting or adjourned meeting at which the vote objected to is tendered, and every vote not disallowed at the meeting is valid. Any such objection must be referred to the Chairman of the meeting.

13.8 A member of the Management Committee shall take minutes at annual and extraordinary general meetings.

13.9 Any Member not being an individual may by resolution of its board of management authorise such person as it thinks fit to act as its representative at meetings of the Management Committee and general meetings. A person so authorised is entitled to exercise the same powers on behalf of the Member as that Member could exercise.

13.10 There shall be no right for a Member to vote by proxy. No person may represent more than one Member.

### 14. Alteration of the Rules and the Operating Principles

14.1 These Rules may be altered by resolution at an annual or extraordinary general meeting provided that the resolution shall not be passed unless carried unanimously by the Members present and voting at the general meeting, the notice of which contains particulars of the proposed alteration or addition.

14.2 The Operating Principles may be altered by resolution at an annual or extraordinary general meeting provided that the resolution shall not be passed unless carried unanimously by the Members present and voting at the general meeting, the notice of which contains particulars of the proposed alteration or addition.

### 15. Bye-laws

The Management Committee shall have power to make, repeal and amend such bye-laws as it may from time to time consider necessary for the wellbeing of the Association. In addition, the Management Committee shall have power to make, repeal and amend such bye-laws so that they only apply to certain types of business models or platforms operated by some Members and not others, provided that such specific bye-laws are not unnecessarily discriminatory against, or favourable to, the Members to which they apply. Such regulations and standing orders and any repeals or amendments to them shall have effect until set aside by the Management Committee.

### 16. Finance

16.1 All moneys payable to the Association shall be received by the person authorised by the Management Committee to receive such moneys and shall be deposited in a segregated bank account operated by a Member nominated by the Management Committee, which account shall be designated in such a way as to show that it is an account which is held for the purpose of safeguarding the Association's funds and be used only for holding those funds. No sum shall be drawn from that account except in the manner specifically authorised in writing by two signatories who shall be the Chairman and one other member of the Management Committee. Any moneys not required for immediate use may be invested as the Management Committee in its discretion thinks fit.

16.2 Subject to Rule 19.3, the income and property of the Association shall be applied only in

## Appendix: Further information on the Peer-to-Peer Finance Association

furtherance of the objects of the Association and no part thereof shall be paid by way of bonus, dividend or profit to any Member.

16.3 The Management Committee shall have power to authorise the payment of remuneration and expenses to any officer, member of the Management Committee, Member or employee of the Association and to any other person or persons for services rendered to the Association. The remuneration of a member of the Management Committee, Member or employee of the Association or other person may take any form and may include any arrangements in connection with the payment of a pension, allowance or gratuity, or any death or sickness or disability benefits to, or in respect of, that person.

16.4 The Association may pay any reasonable expenses that members of the Management Committee properly incur in connection with their attendance at meetings of the Management Committee or at annual or extraordinary general meetings of the Association or otherwise in connection with the exercise of their powers and the discharge of their responsibilities in relation to the Association.

16.5 The financial transactions of the Association shall be recorded in such manner as the Management Committee thinks fit by the Chairman.

16.6 Full accounts of the financial affairs of the Association shall be prepared each year. The accounts must be made available to every Member when notice concerning the annual general meeting is given.

### 17. Property

17.1 The property of the Association, other than cash at the bank, shall be vested in all the Members as tenants in common. They shall deal with the property as directed by resolution of the Management Committee and entry in the minute book shall be conclusive evidence of such a resolution.

### 18. Notices

18.1 The Association can send, make available or supply any notice, ballot paper, accounts, document, or other information by personal delivery, by posting it to the intended recipient's usual address, by sending it or supplying it in electronic form to an address notified by the intended recipient to the Association or by making it available on a website and notifying the intended recipient of its availability in accordance with this rule.

18.2 If any notice or other information is left by the Association at the intended recipient's usual address, it is treated as being received on the day it was left.

18.3 If any notice or other information is sent by the Association by post, it is treated as being received the day after it was posted if first class post was used, or 72 hours after it was posted if first class post was not used. In proving that any notice or other information was received, it is sufficient to show that the envelope was properly addressed and put into the postal system with postage paid.

18.4 If any notice or other information was sent using electronic means, it is treated as being received on the day it was sent. In the case of notices or other information available on a website, the notice or other information is treated as being received on the day on which it was made available on the website or, if later, the day on which the notice of availability is treated as being received by the intended recipient in accordance with this rule.

### 19. Dissolution

19.1 A resolution to dissolve the Association shall be proposed only at an extraordinary general meeting and shall be passed only if carried by a majority of at least two-thirds of the Members present and voting.

19.2 The dissolution shall take effect from the date of the resolution and the members of the Management Committee shall be responsible for the winding-up of the assets and liabilities of the Association.

Appendix: Further information on the Peer-to-Peer Finance Association

19.3 Any property remaining after the discharge of the debts and liabilities of the Association shall be paid to or distributed among Members of the Association.

Version 2 – 30 July 2011

## **THE BYE-LAWS OF THE PEER TO PEER FINANCE ASSOCIATION**

(Rule 15)

These Bye-laws are made under the Rules of the Peer to Peer Finance Association.

### **1. Definitions**

In these Bye-laws, capitalised terms shall have the meaning given in this Bye-law, the Rules or the Operating Principles, as the case may be:

“Applicant” means any legal entity applying to be a Member;

“Rules” means the Rules of the Peer to Peer Finance Association, first made on 7 July 2011.

### **2. Process for Applying for Membership of the Association**

(a) The Applicant states its interest in joining the Association.

(b) The Applicant supplies to the Management Committee details of how the Applicant complies with the Operating Principles and the Rules of the Association. Such details must include:

i. Confirmation from the Applicant’s accounts that the applicable minimum capital requirement is met;

ii. Submission of the Applicant’s current customer terms and conditions governing the use of its Platform and confirming its agreement to segregate its customers’ funds; notification and consents required under the Data Protection Act 1998; and complaints handling process;

iii. A letter from the Applicant’s bank manager confirming segregated status of the Segregated Account(s) in which the Applicant’s customers’ funds are held;

iv. A plan for the orderly administration of the Applicant’s customers’ contracts in the event that the Applicant or its Platform ceases to operate. This could include a financial model showing income and expenses over the run-off period with the provision of funds to pay for the administration costs; a letter from the Applicant’s auditors confirming the viability of such a plan and the provision of funds to pay for it; or a copy of a servicing agreement between the Applicant and a reputable third party provider who would administer the contracts in run-off, with confirmation of funds provided to pay for that service.

v. The name and qualifications of the proposed “Approved Person” (likely to be the Applicant’s chief executive officer or managing director);

vi. Any further evidence required to demonstrate compliance with The Operating Principles and the Rules which the Management Committee requests in writing, in its absolute discretion.

(c) The application will be reviewed by the Management Committee within such time period as it may determine in its sole and absolute discretion.

(d) In the event that the application is accepted, an invoice for the fees applicable under the Rules will be issued to the Applicant and, on payment of those fees, the Applicant will be deemed to be a Member of the Association.

**Peer-to-Peer Finance Association Operating Principles  
(15 June 2012)**

**Introduction**

The Peer-to-Peer Finance Association brings together businesses that operate peer-to-peer finance platforms in order to set minimum standards of good practice, particularly when dealing with consumers and small businesses. Peer-to-peer finance platforms facilitate funding via direct, one-to-one contracts between a single recipient and multiple providers of funds, where the majority of providers and borrowers are consumers or small businesses. Generally, funding is in the form of a simple loan, but other instruments may evolve over time.

Membership of the Association is open to all businesses operating a peer to peer finance platform and admission is subject to the Rules of the Association. Members must comply with the Rules and the Operating Principles.

Effective regulation of peer-to-peer finance platforms will ensure that services are fair and transparent, and that operational risks are managed in a way that shifts the regulatory burden from market participants to the platform operator. In turn, this enables platform operators to provide broad public access to simple, transparent, low cost financial services.

However, the current regulatory framework does not specifically regulate peer-to-peer finance. Accordingly, members should not only comply with applicable law, regulation and industry rules (e.g. governing the use of credit reference data), but also following the Operating Principles. These principles set out the key requirements for the orderly operation of peer-to-peer finance platforms:

1. Senior management systems and controls;
2. Minimum capital requirements;
3. Segregation of participants' funds;
4. Clear rules governing use of the platform, consistent with these Operating Principles;
5. Marketing and customer communications that are clear, fair and not misleading;
6. Secure and reliable IT systems;
7. Fair complaints handling;
8. The orderly administration of contracts in the event a platform ceases to operate; and
9. Appropriate credit assessment and anti-fraud measures including CIFAS membership (see [http://www.cifas.org.uk/cifas\\_members](http://www.cifas.org.uk/cifas_members)).

## **1. Senior Management Systems and Controls**

Each Member should have at least one director that the Member would be prepared to nominate to the Financial Services Authority as the Member's "Approved Person" if that regulatory requirement applied to the Member.

## **2. Minimum Capital Requirements**

Each Member will maintain own funds (as defined in Part 2 of Schedule 3 to the Payment Services Regulations 2009 ("PSRs")<sup>1</sup>) equivalent to the greater of:

<sup>1</sup> <http://www.legislation.gov.uk/uksi/2009/209/contents/made>

(a) £100,000 initial capital (comprising the items specified in paragraph 3(a), (b) and (c) of Part 2 of Schedule 3 to the PSRs); and

(b) the amount calculated in accordance with "Method A" of the PSRs.

Once each year, within 28 days after the Member's financial year end, a Director of each Member shall notify the Association in writing of the amount of the Member's own funds.

In addition, on request, a Member must provide the Association with audited accounts as evidence that a Member holds the correct level of initial capital and own funds under this Principle 2, even if the Member is a small firm that is not required to file audited accounts with Companies House. If a Member's audited accounts are filed with Companies House, the Member must send them to the Association at the same time.

## **3. Segregation of Customer Funds**

Each member should segregate their customers' funds from the Member's own funds and company assets, in a segregated bank account which is designated in such a way as to show that it is an account which is held for the purpose of safeguarding the customers' funds and be used only for holding those funds ("Segregated Account") in accordance with paragraphs 4 to 8 and 11 to 15 (inclusive) of Regulation 19 of the PSRs.

## **4. Rules Governing the Use of Platforms**

(a) Each member's own terms and conditions should cover (i) eligibility to use the platform; (ii) registration and membership set-up; (iii) how the borrowing and lending processes work; (iv) segregation of funds; (v) how loan contracts are concluded; (vi) how loans are serviced; (vii) processes for the recovery of missed payments; (viii) the fees and charges that apply; (ix) variation (x) termination; (xi) use of personal data; (xii) liability for user content posted on the platform; (xiii) limits on liability; and (xiv) complaints handling.

(b) Members may lend or invest their own money on their own platform, provided that each Member which does lend or invest its own money on its own platform clearly discloses that fact to its customers. Members should not borrow or raise funds through their own platform. Each Member must ensure that it has no bias towards either providers or recipients of funds. Shareholders and employees can lend and borrow on an arm's length commercial basis.

(c) Each Member should report its lenders' returns based on the amount of interest earned on the money whilst the money is "at risk", rather than in the Member's Segregated Account. Each Member must publish on its Platform:

- i. at all times, transparent and justifiable estimates of what it reasonably estimates the default rate to be in relation to the loans or other instruments offered (if the risk is borne by the lender or investor) and in so doing may include that default rate within the overall return that it estimates the lender or investor will receive (assuming the funding arrangement runs to term);
- ii. at all times, details of the Member's collections procedures and define when a payment due under any loan or other instrument is considered "late" or in "default";
- iii. on a monthly basis, the number of loans or other instruments on its Platform that have suffered late payment and those which have been the subject of a default;
- iv. on a monthly basis, the total amount of principal outstanding in relation to loans or other instruments on its Platform that (a) are then suffering late payment(s) and (b) have been the subject of a default that has not been rectified.

## **5. Marketing and Customer Communications**

Each Member must comply with the law and regulations applicable to their sales and marketing activity, as well as the applicable provisions of the Codes of Advertising Practice promulgated by the Committees of Advertising Practice administered by the Advertising Standards Authority.

## **6. Systems Infrastructure**

Members must ensure that their overall information technology ("IT") strategies and systems are secure, reliable and proportionate to the nature, scale and complexity of their business and are sufficiently robust to facilitate, on an ongoing basis, the Member's compliance with applicable law, regulation, the Rules and these Operating Principles.

## **7. Complaints Handling**

Each Member must have its own fair, standard and defined complaints handling process that should resolve most complaints about the Member's activities. Each Member must inform its customers about its complaints mechanism and any legal right to refer a complaint to an authority (e.g. the Financial Ombudsman Service). Such information should be given in the Member's terms and conditions and on first contact with the customer about a complaint. Each

## Appendix: Further information on the Peer-to-Peer Finance Association

Member should retain records of complaints so these can be used to help other resolve the complaints if necessary.

### **8. Orderly Run-off**

Each Member must make arrangements to ensure the orderly administration of its customers' contracts in the event the Member or the Member's Platform ceases to operate. Such arrangements to include (these can be delegated to a reputable third party):

- sufficient manpower to administer the contracts in run-off;
- a suitable collection and payment process for repayments;
- a suitable disbursement process for net proceeds due to lenders;
- the ability for customers to communicate with the operator;
- maintenance of requisite licence approvals;
- compliance with applicable law, regulations, the Rules and the Operating Principles;
- allowance for office and sundry expenses.

**9. Appropriate credit assessment and anti-fraud measures including CIFAS membership (see [http://www.cifas.org.uk/cifas\\_members](http://www.cifas.org.uk/cifas_members))**

In addition to reasonable credit assessment criteria, compliance with any applicable anti-money laundering regulation and such other anti-fraud measures as it reasonably considers appropriate, each Member must be a current member of CIFAS<sup>2</sup>, the fraud prevention service, and operate effective procedures to enable fraud to be identified, prevented and shared with CIFAS.

<sup>2</sup> <http://www.cifas.org.uk>

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 regulatory provision.