



## DIFFERENCES IN THE REGULATORY SYSTEMS GOVERNING PEER-TO-PEER LENDING PLATFORMS BETWEEN THE UK AND MALAYSIA

# OVERVIEW

## THIS DOCUMENT PROVIDES A CLEAR CONTRAST OF THE DIFFERENCE IN THE REGULATORY SYSTEMS GOVERNING PEER-TO-PEER LENDING PLATFORMS BETWEEN THE UK AND MALAYSIA.

Entering the Malaysian P2P lending sector requires an understanding of the regulatory requirements. UK P2P platforms that have developed their systems and processes to be complaint under the Financial Conduct Authority of the UK (FCA).

The document also illustrates the processes and controls that will need to be implemented in order to meet the Malaysian Regulatory requirements as well as set out how the White Label Crowdfunding lending platform technology helps facilitate the efficient and smooth operation of a regulatory compliant platform across multiple jurisdictions.

SC's GRM Rule	UK FCA Equivalent	Processes Required	WLCF Platform Assistance
P2P OPERATOR RULES			
All P2P operators must be locally incorporated and have a minimum paid-up capital of RM5 million.	<ul style="list-style-type: none"> <li>UK platforms to be registered in the UK and for Senior Managers and controlling minds to be resident in the UK.</li> </ul>		

- No start-up capital requirement.
  - P2P Platforms are subject to Capital Adequacy Requirements once operational

OPERATOR OBLIGATIONS

13.05 A P2P Operator Must-

a) ensure there is an efficient and transparent risk scoring system in place relating to the investment note or Islamic investment note;

b) carry out a risk assessment on prospective issuers intending to use its platform;

- The FCA does not provide minimum standards of due diligence or disclosure to platforms. The FCA prefers not to give guidance of the operational details of platforms. Instead the FCA sets out rules on the conduct of the platforms and the manner in which risks are communicated to investors.
- The FCA's Principles of Business PRIN, especially PRIN 5, 7, and 9 give rise for a platform to ensure that it acts in the interest of its investors.
- The FCA does not provide minimum standards of due diligence or disclosure to platforms.

- Clearly determine platforms risk appetite and investor suitability to risk.
- Develop bespoke credit risk tool and processes.
- Develop bespoke and detailed underwriting / assessment policy and process

- Platform able to incorporate bespoke risk rating display systems for Platforms.

c) monitor and ensure compliance of its rules;

- PRIN 2 states that a firm must conduct itself with Due Care, Skill and diligence.
- SYSC 3.1 States that a firm should take reasonable care to establish and maintain such systems and controls as are appropriate to its business.
- SYSC 3.1.2 To enable it to comply with its obligation to maintain appropriate systems and controls, a firm should carry out a regular review of them.
- The FCA does not impose a need to educate investors.
- The FCA does pose minimum standards of communication to investors and communication of the risks

d) carry out investor education programmes;

- Set clear lending and risk appetite of firm.
- Consider creation of Credit Risk Committee responsible for ensuring correct processes and guidelines are being adhered to and provide another line of review and scrutiny to credit applications.
- Implement Issue Escalation, and whistle blowing policies to allow staff ability to identify and escalate issues of concern.
- Carry out periodic spot checks on various systems and controls such as AML, TIF etc.
- Regularly carry out Investor Satisfaction survey to identify investor needs and gaps in knowledge, understanding or satisfaction in service.
- Use the SC's: GUIDELINES ON SALES PRACTICES OF UNLISTED CAPITAL MARKET PRODUCTS, as

- WLCF provide a project collaboration tool that can be used for issue escalation
- Surveys are easy to create and administer on the Platform

<p>e) ensure the issuer's disclosure document lodged with the P2P operator is verified for accuracy and made accessible to investors through the platform;</p> <p>f) inform investors of any material adverse change to the issuer's proposal as set out under paragraph 13.12;</p>	<p>involved in investing via P2P.</p> <ul style="list-style-type: none"> <li>• COBS 2.2.1 imposes minimum standards about disclosure of information relating to the platform and its services</li> <li>• COBS 2.2 Imposes minimum standards of disclosure required by platforms to investors prior to providing the services, this can be read to include details about the Issuer, allowing the investor the opportunity to conduct their own Due Diligence.</li> <li>• The FCA does not specially require platforms to publish final executed agreements on the platforms, however requires that these are correctly recorded and stored for safe keeping in the event of enforcement.</li> <li>• This requirement is covered by the FCA PRIN 7 A firm must pay due regard to the information needs of its clients, and</li> </ul>	<p>a guideline to inform investor communication strategies and disclosures.</p> <ul style="list-style-type: none"> <li>• Draft and implement an efficient loan completion process. Ensure it includes: <ul style="list-style-type: none"> <li>○ Rechecking of Issuers personal details and meets enhanced CDD practices such as requirement to receive original certified copies of ID</li> <li>○ Valuation of the completion of the specific documentation ensuring correctly completed and enforceable</li> <li>○ Verify the issuers bank account to which funds are to be sent to ensure it is registered to the Issuer</li> </ul> </li> <li>• Train operational staff of what is deemed to be a material adverse change.</li> <li>• Heighten requirement to include and 'material change'</li> </ul>	<ul style="list-style-type: none"> <li>• Platform allows for the automatic creation of loan agreements using platform loan agreement template</li> <li>• Platform allows for automated creation of template driven security documents to be issued to Issuer.</li> <li>• Platform allows officers to easily send out a direct communication to investors on specific loans, to notify them of any material</li> </ul>
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g) ensure that it does not engage in any business practices appearing to SC to be deceitful, oppressive or improper (whether unlawful or not) or which otherwise reflect discredit on his method of conducting business;

communicate information to them in a way which is clear, fair and not misleading.

- This is covered by the FCA PRIN 1: A firm must conduct its business with integrity. And PRIN 3 A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.
- Furthermore, the FCA imposes COBS 2.1 A firm must act honestly, fairly and professionally in accordance with the best interests of its client (the client's best interests rule).
- The FCA goes further to also impose duties of conduct on all staff, Senior Management and Approved persons in COCON

- Incorporate staff code of conduct and draft into staff employment contracts and include in performance reviews.
- Ensure senior Managers self-declare that they are fit and proper and re-declare on an annual basis.
- Implement a comprehensive Whistle Blowing policy and process to allow staff a route to identify malpractice.

changes. This functionality it's in each application in Application Manager

- Platform capable of including an 'Updates Tab' on the investor dashboard allowing ease of access for investors on all loan related communication specific to their account.

h) obtain and retain the self-declared risk acknowledgement forms from the investors prior to them investing on a P2P platform;

i) have in place processes to monitor anti-money laundering requirements;

- FCA Requires firms to categorise Clients (COBS 3) as either retail, Professional, Eligible Counter party.
- The FCA does not generally require investors to complete self-declaration forms.
- The FCA requires firms to on-board investors in such a way so that the Risks of investment are highlighted and that all investors acknowledge and agree to the terms and conditions of the platform
- The FCA specifically imposes a duty on firms to conduct checks and implement appropriate systems and controls to mitigate Financial crime, SYSC 6.3

- Evaluate areas of need for various consent and declaration forms on the platform.
- Draft the forms and schedule regular review of the suitability of the forms for the function of the platform, the client's needs and the regulatory changes.

- Close adherence to the SC's GUIDELINES ON PREVENTION OF MONEY LAUNDERING AND TERRORISM FINANCING FOR CAPITAL MARKET INTERMEDIARIES
- A Clear and specific policy and process document should be drawn up to ensure that the Guidelines are matched with the operational risks posed by users of the platform.
- Implement a risk based approach to the AML processes
- Implement comprehensive and regular training and competency testing.
- Maintain clear records of checks and breaches of policy.

- WLCF platform able to easily implement bespoke suitability and declaration and consent forms at various stages of the users' journey. E.g. Registration, Acceptance of T&C's, Bidding / Lending – Confirmation of willingness to place bid.
- Platform can maintain record of date and time of clients consent etc. and categorise appropriately.

- The WLCF platform has developed an AML module that is designed to make the administration and monitoring of AML practices more efficient.
- Includes capture of users address and personal information
- Possibility to integrate with online 3<sup>rd</sup> Party ID / AML checking agencies and report back on result of search.
- System able to flag users that have been registered on the platform for over a year and require an

j) have in place processes or policies to manage any default by issuers including using its best endeavours to recover amount outstanding to investors; and

k) in addition to the provision as set out in subparagraph 3.01(f), ensure that its rules set out a rate of financing that is not more than 18 per cent per annum. A P2P operator must consult the SC if it wishes to impose a rate of financing that is more than 18 per cent per annum.

- The FCA does not impose a duty on firms to incorporate recovery systems on behalf of investors.
- To our knowledge all platforms in the UK do incorporate recovery and default collection procedures on behalf of investors whilst allowing investors the opportunity to pursue their portion of the debt themselves.
- The FCA does not impose a maximum rate of finance on firms.

- Incorporate right to carry out AML / ID checks on users into platform T&C's

- Define default triggers and incorporate into loan agreement
- Design a 'Late Repayment Collections process' that escalates smoothly into 'Legal Default Collection Process'.
- Determine whether practice of collecting debts on behalf of investors will be in house or outsourced.

additional re-check of their AML status.

- System allows platform to apply profiling / categorisation of investors and apply alternative criteria / scheduling / monitoring of AML.
- Platform able to set minimum and maximum rates of finance applicable, preventing any possible breach of rule.



13.06 The scope of the risk assessment by a P2P operator shall include taking reasonable steps to—

- a) conduct background checks on the issuer to ensure fit and properness of the issuer, its board of directors, senior management and controlling owner;
- b) verify the business proposition of the issuer; and
- c) carry out assessment on the issuer's creditworthiness.

- The FCA does not provide minimum standards of due diligence or disclosure to platforms.

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- Clearly determine platforms risk appetite and investor suitability to risk.
- Conduct quarterly Credit Risk Committee meetings to evaluate processes and review weaknesses of system.

- Clearly determine platforms risk appetite and investor suitability to risk.
- Develop bespoke credit risk tool and processes that take into account the creditworthiness of the Issuer

# OPERATION OF TRUST ACCOUNT

SC's GRM Rule	UK FCA Equivalent	Processes Required	WLCF Platform Assistance
<p>13.07 A P2P operator must establish systems and controls for maintaining accurate and up-to-date records of investors' monies held.</p>	<ul style="list-style-type: none"> <li>• FCA classifies money held by platforms as Client money.</li> <li>• The FCA has a high threshold of systems and controls that it requires platforms to meet when holding client money. These Rules are set out in detail in the FCA handbook under the CASS rules.</li> <li>• FCA sets out specific and compulsory methods of reconciliation for platforms (CASS 5.5)</li> <li>• FCA gives platforms a CASS classification (CASS 1A.2) depending on the size of the firm and the level of client money held by the firm, various classifications require higher threshold conditions to be met.</li> </ul>	<ul style="list-style-type: none"> <li>• Development of a comprehensive and thorough client account reconciliation process is needed.</li> <li>• Detailed thought should be given to reconciliation procedures in light of the firm's fee structure, loan repayment structure and investor reporting standards.</li> <li>• Best practice to incorporate regular internal and external reconciliations.</li> <li>• Appoint an Oversight Role</li> <li>• Ensure that account holding client funds is segregated from the platforms account and clearly identifiable as client</li> </ul>	<ul style="list-style-type: none"> <li>• System built to manage a complex loan distribution process, taking into account the credit and debit from platform funds to user funds.</li> <li>• System can operate a double entry reconciliation system alongside a cash book system.</li> <li>• System creates full statements and records for both investor and borrower transactions allowing for easy reconciliation and transaction tracking</li> </ul>

13.08 The P2P operator must ensure that investors' monies are properly safeguarded from conversion or inappropriate use by its officers.

- Daily Client Account Reconciliations required.
- FCA imposes significant fines and sanctions on firms for breaches of CASS rules.

- A firm must introduce adequate organisational arrangements to minimise the risk of the loss or diminution of clients' safe custody assets, or the rights in connection with those safe custody assets, as a result of the misuse of the safe custody assets, fraud, poor administration, inadequate record-keeping or negligence. (CASS 6.2.2)
- The FCA requires a firm to appoint a client money oversight role (CASS 1A.3), Cass Medium and CASS large firms are required to appoint an

money, if appropriate request specific 'Client Account' form banking provider.

- Platforms should use the SC's Guidelines On Compliance Function For Fund Management Companies – Safeguarding Client's Assets as a first guideline and work towards more stringent best practices advocated by the FCA.
- In the Client Account Management process specific individuals should be named as having access to the account. Access should be restricted as far as practicably possible.
- Board should agree the access permissions of staff to client account

- Platform back end can through user access restrictions prevent unauthorised staff from accessing sections of the site that are related to client money.

TRUST ACCOUNT RELATING TO MONIES RECEIVED FOR ISSUERS

13.09 The P2P operator shall establish and maintain in a licensed institution, one or more trust account designated for the fund raised in relation to a hosting on their platform.

- FCA requires banking institution to issue platform a formal notice with specific wording acknowledging that the account opened is for the use of client money
- FCA Requires firms to review the suitability of their banking provider on an annual basis.
- Development of a comprehensive and thorough client account reconciliation process is needed.
- Detailed thought should be given to reconciliation procedures in light of the firm's fee structure, loan repayment structure and investor reporting standards.
- Best practice to incorporate regular internal and external reconciliations.
- Appoint an Oversight Role
- Ensure that account holding client funds is segregated form the platforms account and clearly identifiable as client money, if appropriate request specific 'Client Account' form banking provider.
- System built to manage a complex loan distribution process, taking into account the credit and debit from platform funds to user funds.
- System can operate a double entry reconciliation system alongside a cash book system.
- System creates full statements and records for both investor and borrower transactions allowing for easy reconciliation and transaction tracking

13.10 The P2P operator may only release the fund to the issuer provided that there is no material adverse change relating to the investment notes or Islamic investment notes during the offer period.

- No FCA specific requirements.
- Conduct in holding client funds will be captured under Principles for business, COBS and SYSC.

13.11 Where an Islamic investment note is executed or offered, on or through a P2P platform, the P2P operator must establish and maintain a Shariah compliant trust account with a licensed Islamic bank, licensed bank or

- No FCA Equivalent

- Platforms should use the SC's Guidelines On Compliance Function For Fund Management Companies – Safeguarding Client's Assets as a first guideline and work towards more stringent best practices advocated by the FCA.
- Platform should develop a clear and thorough loan completion / drawdown procedure, that takes into account assessment of the business, enforceability of the legal agreements.
- Operational staff should also receive training in regards to issues that may prevent the completion of a loan after it has been funded and be made aware of escalation steps in addressing any identified irregularity.
- Platform should evaluate a number of Shariah Trust account providers and match the offerings of these accounts with the needs and expectations of their clients

- Platform able to operate Shariah Compliant distribution and repayment of loans

licensed investment bank approved to carry on Islamic banking business, for purpose of the fund raised.

- 13.12 For the purpose of paragraph 13.10, a material adverse change may include any of the following matters:
- a. The discovery of a false or misleading statement in the disclosure document in relation to the investment notes or Islamic investment notes;
  - b. The discovery of a material omission of information required to be included in the disclosure document; or
  - c. There is a material change or development in the circumstances relating to the investment notes, Islamic investment notes or the issuer.
- 13.13 Notwithstanding paragraph 13.10, the P2P operator may impose any other additional conditions precedent before releasing the fund, provided that they serve the investors' interest.

- No FCA specific requirements
- Would be captured in Conduct and Disclosure rules

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TRUST ACCOUNT RELATING TO MONIES RECEIVED FOR INVESTORS

13.14 A P2P operator shall establish and maintain in a licensed institution, one or more trust account designated for the monies received as repayments to investors.

13.15 A P2P operator shall not withdraw from or deal with investors' monies in a trust account except for the purpose of making a payment-

- a. to the person entitled thereto (issuer, investor or P2P operator);

- FCA requires banking institution to issue platform a formal notice with specific wording acknowledging that the account opened is for the use of client money
- FCA Requires firms to review the suitability of their banking provider on an annual basis.
- FCA requires Clients accounts to be clearly separated from its current accounts and easily identifiable as such. (CASS7.13.12)
- FCA makes clear that a firm may not withdraw or use funds for its own use form a Client account, CASS 5.4.
- The FCA require that all Client money is appropriately segregated from client money (CASS 74.13.1)
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- The FCA expects firms to process requests for withdrawal of an investor's funds promptly and efficiently and to take to due care to ensure that the funds are sent to the appropriate investor.

- Platforms should draft internal client money handling processes and set internal and external SLA's so that clients know when they can expect withdrawal requests to be actioned and received.

- The platform allows investors to easily request a withdrawal of their funds. Where an investor is requesting their first withdrawal the system will prompt them for bank account details, which will be stored securely in the Admin area.

b. that is otherwise as directed by SC or by any other enforcement agencies as provided under written law.

- The platform automatically queues an investors withdrawal request ready for an Officer to process.
- The admin withdrawal queues will show the client's bank account details to which the funds should be returned.



# MANAGING CONFLICT OF INTEREST

SC's GRM Rule	UK FCA Equivalent	Processes Required	WLCF Platform Assistance
<p><b>13.16</b> A P2P operator must establish a framework which sets out policies and procedures to effectively and efficiently manage conflicts of interest including potential conflicts of interest which may arise in the course of the P2P operator carrying out its functions. Such conflicts must be managed in a timely manner.</p>	<ul style="list-style-type: none"> <li>• A firm must take all reasonable steps to identify conflicts of interest between:               <ul style="list-style-type: none"> <li>○ the firm, including its managers, employees and appointed representatives (or where applicable, tied agents), or any person directly or indirectly linked to them by control, and a client of the firm; or</li> <li>○ one client of the firm and another client;</li> </ul> </li> <li>• that arise or may arise in the course of the firm providing any service referred to in SYSC 10.1.1 R.</li> <li>• The FCA sets out a list of its perceived situations that may give rise to a conflict of interest.</li> <li>• The FCA goes further to set regulation on advising on the contents of a conflicts of interest policy (SYSC 10.1.10)</li> </ul>	<ul style="list-style-type: none"> <li>• Platforms should draft a Conflicts of Interest Policy and Process document which identifies potential conflicts, the actions it will take and a means by which staff may highlight potential conflicts of interest to senior managers</li> <li>• A platform should also maintain a conflicts register which clearly identifies the conflicts and addresses the conflicts through a mitigation strategy.</li> <li>• Staff should receive training on the Conflicts of Interest policy and be aware and able to report any noticed conflicts.</li> </ul>	

13.17 The P2P operator and its officers are prohibited from providing any financial assistance to investors to invest in investment note or Islamic investment note executed or offered, on or through its platform.

13.18 The P2P operator is prohibited from providing any funding to issuers or investing in any of the investment note or Islamic investment note executed or offered, on or through its platform.

13.19 Notwithstanding paragraph 13.18, officers of the P2P operator are permitted to invest subject to the P2P operator having in place appropriate process and procedure to manage conflict of interest.

- The FCA sets a requirement for firms to notify clients of conflicts of interest which cannot be avoided or addressed (SYS10.1.8)
- The FCA does not expressly prohibit this activity and allows firms to assess the proportionality of this action with the regulations of Conflicts of Interest SYSC 10, and PRIN.

- The FCA does not expressly prohibit this activity and allows firms to assess the proportionality of this action with the regulations of Conflicts of Interest SYSC 10, and PRIN.
- In the UK many platforms gained initial momentum by funding the Issuers listed on their platform before moving to other external investors.

- The FCA does not expressly prohibit or encourage this activity and allows firms to assess the proportionality with the regulations of Conflicts of Interest SYSC 10, and PRIN.
- Many UK platforms encourage staff to invest in loans on their platforms as it is perceived to give external investors' confidence in a platform where staff are investing alongside them.

- Platforms should draft an Insider Trading Policy and guidelines for staff that clearly set out parameters in which they may invest. Care should be given to considering how staff may be able to gain a better return than external investors and strategies to mitigate these situations should be enforced.

# PERMITTED AND NON-PERMITTED ISSUERS

SC's GRM Rule	UK FCA Equivalent	Processes Required	WLCF Platform Assistance
<p>13.20 Only locally registered sole proprietorships, partnerships, incorporated limited liability partnerships, private limited and unlisted public companies, will be allowed to be hosted on the P2P platform.</p>	<ul style="list-style-type: none"> <li>The FCA does not prescribe what time of organisation or legal person can borrow through a P2P platform. Instead the FCA sets out specific rules around the treatment of certain legal persons.</li> <li>Different requirements are placed on platforms depending on whether the agreement falls within Article 36H FSMA 2000 or not.</li> <li>Platforms lending to businesses may decide the scope of their risk appetite, and decide on the level of funding they will offer and the type of legal structure they provide it to and review whether these catch them under A. 36H.</li> </ul>	<ul style="list-style-type: none"> <li>Different type of legal entities allows potentially different levels of enforceability to investors.</li> <li>Platforms should set their risk appetite and take into consideration the recoverability of any funds in default through the legal entity and consider whether further steps need to be put in place in order to recover funds beyond the Issuer. For Example, a UK Limited Liability Co. allows the directors limited liability for the losses of the business, without a personal guarantee against the business a platform would not be able to recover the funds from the business should it cease to trade.</li> <li>Ensure that on boarding processes for Issuers allow for screening out of company types not allowed by the platform, and</li> </ul>	<ul style="list-style-type: none"> <li>Platform has in built ability to potentially look up an inputted applicant's business against a public register to confirm the legal status of the Issuer. This assists with application screening and efficiency as well as meeting the regulatory rules.</li> </ul>

13.21 The following entities are prohibited from raising funds through a P2P platform:

- a. Commercially or financially complex structures (i.e. investment fund companies or financial institutions);
- b. Public-listed companies and their subsidiaries;
- c. Companies with no specific business plan or its business plan is to merge

- The FCA does not prescribe what time of organisation or legal person can borrow through a P2P platform. Instead the FCA sets out specific rules around the treatment of certain legal persons.
- Different requirements are placed on platforms depending on whether the agreement falls within Article 36H FSMA 2000 or not.
- Platforms lending to businesses may decide the scope of their risk appetite, and decide on the level of funding they will offer and the type of legal structure they provide it to and review whether these catch them under A. 36H.
- No FCA Prescription or prohibition
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ensure there is a further step in the assessment of the Issuer that verifies the status of the company.

- Platform has in built ability to potentially look up an inputted applicant's business against a public register to confirm the legal status of the Issuer. This assists with application screening and efficiency as well as meeting the regulatory rules.

<p>or acquire an unidentified entity (i.e. blind pool);</p> <p>d. Companies that propose to use the funds raised to provide loans or make investment in other entities; and</p> <p>e. Any other type of entity that is specified by the SC.</p> <p>13.22 An issuer shall not be allowed to be hosted concurrently for same purposes on multiple P2P platforms.</p> <p>13.23 An issuer may be permitted to list on a P2P platform and ECF platform at the same time subject to disclosure requirements as may be specified by the platform operators.</p>	<ul style="list-style-type: none"> <li>• No FCA Prescription or prohibition</li> <li>• The FCA does not expressly prohibit a borrower from making applications or receiving funding form multiple platforms concurrently.</li> <li>• The FCA does not expressly prohibit a borrower from making applications or receiving funding form multiple platforms concurrently.</li> </ul>	<ul style="list-style-type: none"> <li>• The enforceability of this rule will be difficult for the platforms to monitor and will need to in the first instance get a declaration from the Issuers that they do not have any other pending applications with other providers.</li> <li>• Platforms, given the expressed regulatory rule will need to take measures to monitor the activity of other platforms to ensure no breaches occur.</li> <li>• Platforms should include a question in their application form questioning whether an Issuer has or intends to apply to an ECF at the same time as the P2P platform.</li> <li>• Processes should be built into the underwriting process to ensure that where an Issuer affirms that they have applied to an ECF and a P2P, that allows</li> </ul>	<ul style="list-style-type: none"> <li>• Platform allows for bespoke application process, allowing the ability to implement first step screening.</li> </ul>
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underwriters to satisfy duties in 13.06.

# RISK SCORING

SC's GRM Rule	UK FCA Equivalent	Processes Required	WLCF Platform Assistance
<p>13.24 All issues, offers or invitations to subscribe or purchase investment note or Islamic investment note must be rated by the P2P operator.</p> <p>13.25 The P2P operator is accountable for the risk scoring mechanism and methodology employed.</p>	<ul style="list-style-type: none"> <li>The FCA does not provide minimum standards of due diligence or disclosure to platforms. The Guidelines offered in COBS 14.3.7A are high level requirements of the platform in general not of each specific loan application.</li> <li>The FCA's Principles of Business PRIN, especially PRIN 5, 7 and 9 ensure that platforms act in the interest of its investors.</li> <li>The FCA does not provide minimum standards of due diligence or disclosure to platforms. The Guidelines offered in COBS 14.3.7A are high level requirements of the</li> </ul>	<ul style="list-style-type: none"> <li>Develop bespoke risk adjusted rating tool.</li> <li>Document functionality of the tool</li> <li>Draft governance processes around changes to risk rating tool and sign off procedures</li> <li>Review risk tool performance of quarterly basis.</li> </ul>	<ul style="list-style-type: none"> <li>Platform allows for bespoke risk scoring identification, EG A-C Risk, Star ratings etc.</li> <li><i>Risk Scoring takes various inputs and normally begins as an offline process.</i></li> </ul>

13.26 The final risk scoring for the purchase of the investment note or Islamic investment note must be made available to the investor at the time of offer.

platform in general not of each specific loan application.

- The FCA's Principles of Business PRIN, especially PRIN 5, 7, and 9 give rise for a platform to ensure that it acts in the interest of its investors.
- The FCA does not provide minimum standards of due diligence or disclosure to platforms. The Guidelines offered in COBS 14.3.7A are high level requirements of the platform in general not of each specific loan application.
- The FCA's Principles of Business PRIN, especially PRIN 5, 7, and 9 give rise for a platform to ensure that it acts in the interest of its investors.

- Platform allows for bespoke risk scoring identification, EG A-C Risk, Star ratings etc.

# FUNDS RAISED ON A P2P PLATFORM

SC's GRM Rule	UK FCA Equivalent	Processes Required	WLCF Platform Assistance
<p>13.27 An issuer is permitted to keep any amount which was raised through a hosting on a P2P platform provided that the issuer must have at least raised 80 per cent of the target amount.</p>	<ul style="list-style-type: none"> <li>The FCA does not set any rules on minimum levels for a business to drawdown the funds raised.</li> <li>The FCA expects that the platforms will clearly disclose the rules of its platforms for both Investors and borrowers to allow for transparency.</li> <li>Generally, platforms will not allow borrowers to take funds unless the full amount is raised, but where the full sum is not raised, allow the borrower to extend the fundraising period, whilst allowing investors to withdraw bids/investment.</li> </ul>		<ul style="list-style-type: none"> <li>Platform bidding and completion processes can be configured so that drawdown of a loan cannot complete until after an Issuer has achieved more than 80% of the fundraising target.</li> </ul>
<p>13.28 Notwithstanding paragraph 13.27, the issuer is not allowed to keep any amount which exceeds the initial target amount.</p>	<ul style="list-style-type: none"> <li>There are no FCA regulations that sets a similar requirement.</li> <li>General practice on P2P loan platforms, is to not allow over funding, but will allow instead have overfunding influence the rate of return, where over bidding / subscriptions sees the final rate fall.</li> </ul>		<ul style="list-style-type: none"> <li>Platform can be configured to bidding functionality required by platform.</li> </ul>



# DISCLOSURE REQUIREMENTS

SC's GRM Rule	UK FCA Equivalent	Processes Required	WLCF Platform Assistance
<p>13.29 An issuer proposing to be hosted on a P2P platform shall submit the relevant information to the P2P operator including the following:</p> <p>a. Information that explains key characteristics of the business;</p>	<ul style="list-style-type: none"> <li>The FCA prescribes that P2P platforms adopt a minimum standard of disclosure in terms of information in regards to the borrower / investment, these are found in BOBS 14.3.7A</li> <li>The FCA's Principles of Business PRIN, especially PRIN 5, 7, and 9 give rise for a platform to ensure that it acts in the interest of its investors</li> <li>COBS 14.7.7A (3) states that a description of how loan risk is assessed, including a description of the criteria that must be met by the borrower before the firm considers the borrower eligible for a P2P agreement; must be given to lenders</li> <li>This can be satisfied on pages on the site removed from a specific application</li> </ul>		

- b. Information that explains the purpose of the investment note or Islamic investment note and the targeted offering amount;
- c. Information relating to the business plan;
- d. Information relating to his intention to seek funding from any other P2P platforms concurrently; and
- e. Financial information relating to the business-
  - i. for offerings below RM500,000:

- The FCA does not specifically prescribe the information that must be given about an investment by the borrower.
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- Platforms should include a question in their application form questioning whether an Issuer has or intends to apply to an ECF at the same time as the P2P platform.
- Processes should be built into the underwriting process to ensure that where an Issuer affirms that they have applied to an ECF and a P2P, that
- The SC, clearly expects platforms to carry out increased levels of Due Diligence as the loan amounts increase.
- The platform should consider the implementation of a credit

- A. Audited financial statements where applicable (e.g. where the issuer has been established for at least 12 months); and
  
- B. Where audited financial statements are unavailable (e.g. the issuer is newly established), certified financial statements or information by the issuer's management;
  - ii. for offerings above RM500,000:

risk committee that sits separate from the operational underwriting, and oversees and reviews applications over a certain threshold value, potentially over RM 500,000 as suggested by the regulator

- Platform allows for the creation of a bespoke application page that allows platform provider to tailor information requirements and submissions to meet regulatory obligations.
- Platform allows for submission of multiple documents during application process. These documents can be then made publically available to investors
- Financial statements may be produced online or downloaded at any time.

Audited financial statements of the company.

13.30 An issuer proposing to be hosted on a P2P platform shall ensure that all information submitted or disclosed to a P2P operator is true and accurate and shall not contain any information or statement which is false or misleading or from which there is a material omission.

13.31 A P2P operator must disclose and display prominently on its platform, any relevant information relating to P2P including–

- a. information relating to issuer as specified under paragraph 13.29, at point of offering and throughout the tenure of the investment note or Islamic investment note;

- This is not a platform regulation.

- The FCA in COBS 2.2 provides guidance on disclosures that should be given when providing a service.
- COBS 2.2 indicates that a firm should provide information about the firm and its services, Details about the investments, guidance and warning of the risks associated with the investments, and the cost of making the investment through the platform.
- The FCA requirements on disclosure are deliberately open ended, possibly to not draw up a

- This will need to be a contractual obligation in the Issuers terms and conditions and Loan Agreements.

- Platforms should assess their risk appetite and that of their investors and decide on appropriate disclosures.
- Many platforms in the UK have opted for full disclosure, making all information available to investors.
- Platforms should be aware that Issuers may be sensitive to what information is available publically for commercial

- The platform allows Officers to prepare suitable declarations that can be completed by issuers or other defined user types.

b. investor education materials and appropriate risk disclosure;

c. information on how the platform facilitates the investor's investment including providing communication channels to permit discussions about offerings hosted on its platform;

definite list and instead allow firms to be caught under the PRIN should disclosure to investors fall short of COBS.

- The FCA does not impose a need to educate investors.
- The FCA does pose minimum standards of communication to investors and communication of the risks involved in investing via P2P.
- COBS 2.2.1 imposes minimum standards about disclosure of information relating to the platform and its services
- The FCA COBS 2.2 rules would capture this requirement.

reasons and be prepared to tailor their requirements accordingly if possible.

- Regularly carry out Investor Satisfaction survey to identify investor needs and gaps in knowledge, understanding or satisfaction in service.
- Use the SC's: GUIDELINES ON SALES PRACTICES OF UNLISTED CAPITAL MARKET PRODUCTS, as a guideline to inform investor communication strategies and disclosures.
- The FCA have been very thorough in their assessment and review of platforms on boarding processes to ensure that investors are made aware very early on in the process how a platform works and that the platform clearly explains the investment products.
- The platform should consider taking the user through an on boarding journey before allowing

d. explanatory notes on risk scoring mechanism, methodology and parameters;

e. general risk warning in participating in P2P;

f. information on rights of investor relating to participation in P2P;

- FCA prescribes specific rules for P2P agreements in COBS 14.7.7A to disclose details of the creditworthiness of the borrower.
- The FCA COBS 2.2 rules would capture this requirement although does not require platforms to disclose specifics in regards to their risk models.
- FCA prescribes specific rules for P2P agreements in COBS 14.7.7A to enforce risk warnings on platform operators.
- The FCA is very keen to ensure that platforms visible and clearly highlight the risk of investing in P2P, particularly in communications removed from the platform such as advertisements, social media etc.
- COBS 4.6.6- 4.6.8 specifically states that platforms should highlight that past performance an indication of future performance.
- FCA prescribes specific rules for P2P agreements in COBS 14.7.7A to set out investors rights.
- The FCA requires platforms to:
  - make investors aware that they are not protected by

them to invest to satisfy this requirement.

- These should be included in the on boarding of the investors as well as in the FAQ's section of the platform.

- Platforms in the UK have had to ensure that risk warnings are appropriately placed and highlighted in a number of areas both on their platform and in communications.
- As best practice platforms need to put in place content sign off procedures to ensure that external communications correctly highlight risks and that wording does not induce or mislead investors.

- Platform allows for all platform posts to be edited and reviewed and for the reviews to be recorded so as to demonstrate a compliant review and sign off procedure by appropriate officers.

g. information about complaints handling or dispute resolution and its procedures;

h. information on the criteria by which an investment note or Islamic investment

the Financial Services Compensation Scheme.

- Have appropriate complaints procedures in place
- Clearly set out investors rights in regards to enforcement of loan agreements
- Their rights in the platforms handling of client money
- The FCA has created specific rules on the handling, reporting and communication of complaints against the platform or its staff, DISP 1.2
- The FCA require firms to clearly communicate their complaints procedure on their site and direct complainants to the Financial Services Ombudsman in the event that they are dissatisfied with the handling of a complaint by a platform.
- The FCA disclosure rules would capture this requirement.
- Platforms should draft a comprehensive complaints handling policy and procedure documents, which sets out both for users and staff how complaints should be handled.
- Platforms should set internal and external Service level targets and ensure that these are met.
- Platforms should have a clear internal escalation process to allow for the efficient handling of complaints.
- Platforms should clearly determine their default triggers and draft debt recovery procedures and
- Platform can include a support ticket system that allows for escalation and tracking of complaints from clients.
- Ticketing systems also enables tagging and recording of complaints, creating an audit trail
- Ticketing system also allows for setting of service level times for staff.

note is regarded as in default;

- i. information about processes and policies put in place by the P2P operator to manage default of issuers;
  
- j. information including statistics on late payment and default rate of issuers hosted on the P2P platform;
  
- k. fees, charges and other expenses that it may

- FCA prescribes specific rules for P2P agreements in COBS 14.7.7A to set out recovery procedures
  
- The FCA COBS 8 (14.7.7A) rules clearly set out certain risk warnings and statistics that should be included on P2P platforms.
- COBS specifically requires platforms to highlight expected and actual default rates in line with the requirements in COBS 4.6 on past and future performance;
  - a summary of the assumptions used in determining expected future default rates;
- FCA prescribes specific rules for P2P agreements in COBS 14.7.7A

communicate these to investors from the outset.

- Information about what a platform does in the event of an Issuer defaulting is a very sensitive topic for Investors.
- A platform's handling of a default situation will be important in maintaining the investors' trust in a platform.
- Ongoing communication to investors on a regular basis as the recovery proceedings progress.

- Platform allows officers to easily send out a direct communication to investors on specific loans, to notify them of any material changes. This functionality is in each application in Application Manager
- Platform capable of including an 'Updates Tab' on the investor dashboard allowing ease of access for investors on all loan related communication specific to their account.
- Platform statistics page able to be developed to meet specific requirements of platform operator.



- charge to, impose on an issuer or investor; and
- I. information on processes and contingency arrangement in the event the P2P operator is unable to carry out its operations or cessation of business.

to clearly set out all fees for both investors and Issuers.

- FCA prescribes specific rules for P2P agreements in COBS 14.7.7A to have a Living will with a capable inheriting partner and for these details to be disclosed to lenders
- SYSC 4.18.8R sets out the FCA's Living Will requirements
- The FCA requires platforms to consider who they will provide financially for the inheriting partner in the event that they cannot continue trading, so as not to burden the inheriting partner which may cause them to not execute the living will.

- To meet this requirement platform's will need to draft a 'Living Will' and have this agreed with a company that will act as the 'Inheriting partner' in the even the platform ceases to trade.
- Platforms should carefully consider who they choose to have as the inheriting partner.
- The Living Will should take into account insolvency laws to ensure best protection of client money and assets

# INVESTMENT LIMITS

SC's GRM Rule	UK FCA Equivalent	Processes Required	WLCF Platform Assistance
<p>13.32 A sophisticated investor or angel investor may invest in any issuer hosted on the P2P platform and shall not be subjected to any restriction in respect of his investment amount.</p> <p>13.33 To manage the risk exposure of retail investors, P2P operators must encourage retail investors to limit their investments on any P2P platform to a maximum of RM50,000 at any period of time. In this regard, a P2P operator may require the investors to file a declaration confirming their compliance with the limit.</p>	<ul style="list-style-type: none"> <li>The FCA does not require loan based P2P platforms to distinguish between High Net-Worth's and sophisticated investors and retail investors.</li> <li>Where client categorisation is not implemented all investors should be afforded the highest protection</li> <li>The FCA does not necessarily require loan based P2P platforms to distinguish between High Net-Worth's and sophisticated investors and retail investors.</li> <li>Where client categorisation is not implemented all investors should be afforded the highest protection as Retail Investors</li> </ul>	<ul style="list-style-type: none"> <li>Platforms should consider whether they want to have two distinct investor types or whether they would prefer to classify all investors as retail investors and in doing so applying a higher level of due care to all investors.</li> <li>Platforms should consider whether they want to have two distinct investor types or whether they would prefer to classify all investors as retail investors by applying a high level of due care to all investors.</li> <li>Platforms should ensure that they meet the standards of treating customers fairly and not afford anyone group of investors more protection or preferential treatment.</li> <li>Platforms should review the SC's Guidelines On Sales Practices Of Unlisted Capital Market Products</li> </ul>	<ul style="list-style-type: none"> <li>Platform allows for client categorisation</li> <li>Platform allows for client categorisation</li> </ul>



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