Chapter 10

Appropriateness (for non-advised services) (non-MiFID and non-insurance-based investment products provisions)

Assessing appropriateness: P2P agreements and P2P portfolios

This Annex belongs to COBS 10.2.9G(1)(b).

When determining whether a *retail client* has the necessary knowledge to understand the risks involved in relation to a *P2P agreement* or a *P2P portfolio*, a *firm* should consider asking the *client* questions that cover, at least, the following matters:

(1) the nature of the *client's* contractual relationships with the borrower and the *firm*;

(2) the *client's* exposure to the credit risk of the borrower;

(3) that the *client* can lose all of the money that they invest in a *P2P agreement* or *P2P portfolio*;

(4) that *P2P agreements* or *P2P portfolios* are not covered by *FSCS* and that the *Financial Ombudsman Service* does not protect investors against poor performance of *P2P agreements* or *P2P portfolios*;

(5) that returns may vary over time;

(6) that entering into a *P2P agreement* or investing in a *P2P portfolio* is not comparable to depositing money in a savings account;

(7) the characteristics of any:

(a) security interest, insurance or guarantee taken in relation to the *P2P agreements* or *P2P portfolio*; or

(b) risk diversification facilitated by the *firm*; or

(c) *contingency fund* offered by the *firm*; or

(d) any other risk mitigation measure adopted by the *firm*;

(8) that any of the measures in (7) adopted by the *firm* cannot guarantee that the *client* will not suffer a loss in relation to the money invested;

(9) that where a *firm* has not adopted any risk mitigation measures (such as those in (7)), the extent of any loss of money invested is likely to be greater than if risk mitigation measures were adopted by the *firm*;

(10) illiquidity in the context of a *P2P agreement* or *P2P portfolio*, including the risk that the lender may be unable to exit a *P2P agreement* before maturity even where the *firm* operates a secondary market (including the fact that any advertised access to money invested is not guaranteed);

(11) the role of the *firm* and the scope of its services, including what the *firm* does and does not do on behalf of *clients*;

(12) the risks to the management and administration of a *P2P agreement* or *P2P portfolio* in the event of the *firm's* becoming insolvent or otherwise failing;

(13) that where a *P2P agreement* or *P2P portfolio* is held in an *innovative finance ISA* (IFISA), this does not reduce the risk of the *P2P agreement* or *P2P portfolio* or otherwise protect the *client* from the risk of losing their money; and

(14) the benefits of diversification and that *retail clients* should not generally invest more than 10% of their net assets in *restricted mass market investments*.