

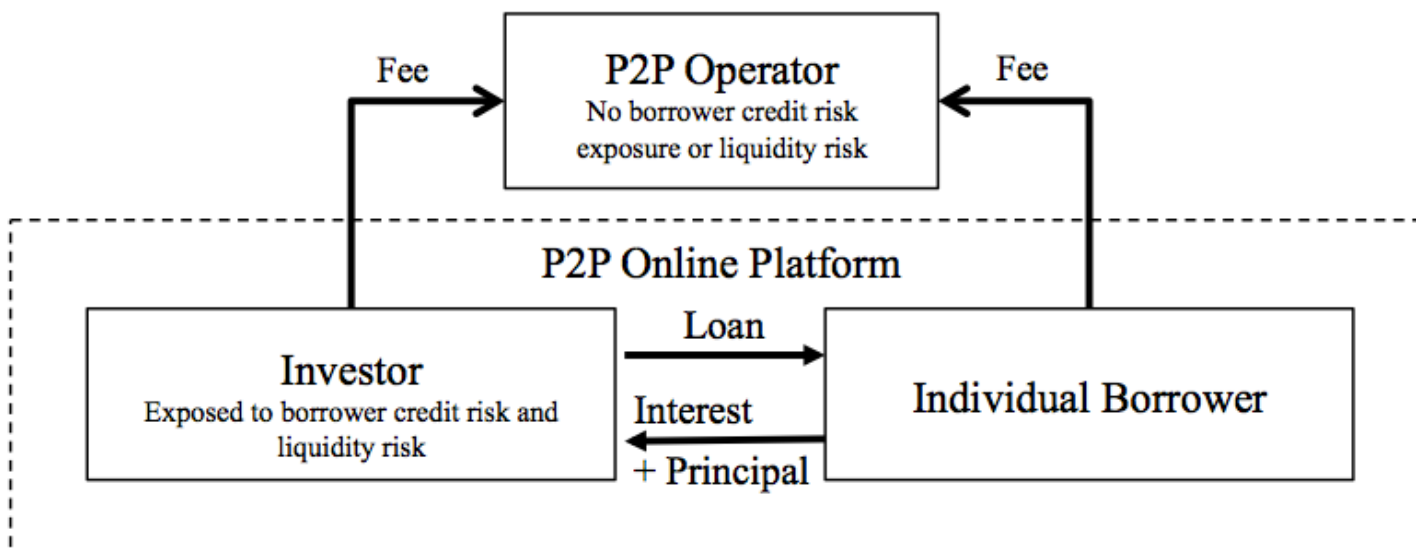
Proposal

- No natural distinction between market operators and financial service providers
- Modern technology could potentially lead to more efficient capital market regulations

P2P Lending Characteristics

- Online marketplace platform
 - Personal and small business loans
- Facilitators not intermediaries
 - Credit risk and liquidity risk transferred to investors
- Differ to other marketplace platforms
 - Financial advice
 - Principle agent relationship
 - Individual managed accounts and trade facilitation

Basic P2P Operating Model



- Potential competitive advantages
 - Operating costs
 - Risk assessment

P2P Operating Model Types

Active Model

- Investors directly select loans from online platform

 **LendingClub**

Passive Model

- Operator selects loans on behalf of investor, given pre-specified criteria

 **Rate%Setter™**

P2P Operating Model Implications

- Interest rate setting process
 - Auction
 - Risk grades
 - Marketplace
- Diversification options
 - Fractionalization
 - Reserve fund

Investor Risks

- Poorly informed investors
 - Different asset classes
 - Integrity, accuracy and consistency of risk assessment
 - Financial advice
- Investment illiquidity
 - Underdeveloped secondary markets
- Agency risk

Borrower Risks

- Privacy concerns
- Loan collection/default practices

Global Regulation

- Borrower and investor protection
- Promote benefits of financial innovation
- Bank regulations not applicable
 - Credit and liquidity risks passed on to investors
- Either write new legislation or apply existing framework
 - UK: Specific P2P lending legislation
 - USA: Regulated by existing SEC framework

Australian Regulatory Approach

- MIS framework – by default and arguably not optimal
 - Collective investment
 - Origination of new securities
- P2P lending has characteristics of:
 - Stockbroker enabling IPO on stock market
 - Market operator – secondary markets
 - Special Purpose Vehicle (SPV)
 - Credit rating agency

Key Development for Regulation

- Investor interacts directly with market
 - Individual managed account and trading facilitation for investors
 - Designated market participants not required to reduce transaction costs and settlement risks
- P2P operator acts as market operator and financial service provider

New Regulatory Approach

- No natural distinction between market operator and financial service provider
- One entity could provide multiple services
- Fintech opens possibility of more general and arguably more efficient capital market regulations.

Peer-to-Peer Lending: Structures, Risks & Regulation

■ **Jacob Murphy & Kevin Davis**

University of Melbourne

Discussant: Martin Joy

ANZ Banking Group Limited