

STEP LADDER SOLUTIONS LTD
WIND DOWN POLICY & PROCEDURE

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Amendments Page

Amendment Number	Inserted By	Date Inserted
1	Peter Tayler/Matthew Addison	19/05/20

Introduction

This policy and procedure set out the principles and processes that we will follow in the event that we wind down our P2P business.

Distribution List

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Document Owner

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Purpose

Wind down arrangements provide for continuity of platform operation through to platform closure where a terminal event occurs. A terminal event is one requiring the closure of the platform such as where the platform operator enters into insolvency arrangements and no rescue or buyout is achievable, or in the case regulatory intervention leading to termination of the firm's status as an Appointed Representative. Wind down arrangements will also cover instances where the firm is solvent and wishes to undertake a strategic exit from the market.

The purpose of a codified process is to ensure that we apply a consistent approach in the event of a wind down and so that we can continually assess the suitability of our wind down arrangements.

An effective wind-down plan will enable us to cease regulated activities and achieve cancellation of our Appointed Representative status with minimal adverse impact on clients, counterparties or the wider markets. This plan will include scenarios where the firm undertakes a strategic exit as well as unexpected crisis or insolvency that makes the firm unviable.

This plan will demonstrate scenarios which could indicate a wind down is necessary or in fact lead to a wind down. It will also detail our process from the point where we identify or are required to wind-down, until we reach administration, liquidation or strategic exit.

Indications and Possibilities Leading to A Firm Winding-Down

We have identified several scenarios that indicate that a wind-down may be imminent or could ultimately lead to us having to implement the winding-down procedure. These are elements that will be continuously monitored to enable us to achieve sufficient forewarning to correctly implement our wind-down plan. These are:

- a. Decline in new business and ability to fund new Circles (borrowers/lenders) leads to the business struggling to generate enough cash to remain operational. The causes for this can be due to:
 - Loss of confidence,
 - Increased competition,
 - Changes to current regulations affecting our lending product.
- b. Increase in arrears and default rates by monetary value materially in excess of forecast
- c. Material write-offs from default exposure, absorbed to the benefit of on-going Circle members.
- d. Liquidity disruption in facilitation of scheduled Member Draws.
- e. Platform failure with no signs of timely recovery
- f. Our banking provider refuses to provide ongoing services.
 - The firm currently have both Metro and Barclays bank accounts (for operations). In respect of client money, if the firm were no longer able to use MangoPay, it would use MLS' client money facility in the short term while exploring a substitute provider.
- g. Several key personnel within the firm resign from their positions within a short space of time.
- h. Additional Peer to Peer regulatory requirements are implemented
- i. FCA place a condition or requirement on the firm's principal that does not allow us to continue acting as an AR. Our Principal, MLS, terminate our appointment as an AR.

- j. Material Financial Ombudsman Service awards against us or legal judgements
- k. Damage to the firm's reputation resulting from negative publicity, public perception, or uncontrollable events.
- l. Market conditions or severe economic downturn permanently impairing business prospects

Monitoring

Each of the possibilities listed above are monitored by the board on a quarterly basis with results of this monitoring indicating if our firm should implement the wind down procedure. The volume of business the firm has received historically have been low and the product terms it offers fixed and therefore we consider it sufficient to undertake this monitoring on no more than a quarterly basis. This would change should indications suggests a difference, or the firm changes its model/products. The monitoring undertaken and MI collected will consist of:

- a. Tracking of cost of new member acquisition and Lead=>Member conversion rates (*Traction MI, continuous – detailed analysis and reporting monthly*)
 - a. Failing to grow would affect ability to raise capital. However, actual member count trajectory is largely independent of the ability to service existing members. So, the key correlation is available current assets versus projected cash needed to manage wind-down as per tests before and after.
- b. Arrears, by individual and monetary value and maximum arrears, as well as default balances (*Master Circle Tracker, top sheet, monthly*)
- c. Exposure by Circle and monetary value (*Master Circle Tracker, top sheet, continuous*)
- d. 9mo liquidity forecast for Circles indicating LOC needs (*Master Circle Tracker, top sheet*)
- e. AWS uptime reporting as well as multiple non-site communications channels for Members
- f. Relationship manager dialogues quarterly; 24/7 account access online – including notifications.
- g. Tracking of leavers internally. Where two or more individuals leave the firm within a month period their roles and responsibilities would be assessed to determine if in combination these losses represented a key loss of resource. Where any management staff are scheduled to leave this will be immediately assessed for impact.
- h. Monitor FCA publication page - <https://www.fca.org.uk/publications> - on a monthly basis to check for any relevant published consultations to enable the firm to prepare any impact from potential changes before this becomes rule
- i. Notification by the Principal would be required to us. However, we will monitor the FCA register on a quarterly basis to ensure the Principals permissions remain sufficient for us to operate and no restrictions have been placed on their licence.
- j. None experienced to date. Monitoring complaints resolution to mitigate risk of escalation. No material legal disputes outstanding. No history of litigation, fines or damages since 2017.
- k. Professional public relations firm engaged on retainer (PHA Group); service includes monitoring
- l. On-going financial and economic press monitoring,

The MI collected from the monitoring undertaken above is reported to our AR when it has been completed for them to undertake their own assessment.

Solvent Wind Down

We will fund, manage and administer our wind down plan in house. All of our live P2P loans will be administered within their contractual terms that both lenders and borrowers had entered into. Our firm will do so in consideration of the requirements outlined in SYSC 4.1.8C (4):

'managing the loan book in a way that ensures that income from P2P agreements facilitated by the firm is sufficient to cover the costs of managing and administering those agreements during the winding down process, taking into account the reduction of the loan pool and fee income from it'

We have set out our projections for the cost of a fully funded wind down in our 'Wind Down Plan' and believe that our firm will be able to continue to meet the cost of the plan.

We estimate a fully-funded run-off plan would require 12 months and £74,400 to effectively wind-down the business operations of the firm. The firm have in its 'Wind Down Plan' provisioned for the wind down taking a further 12-month period. While unlikely it estimates that if this were to be £11,200. The cost composition reflects 70% staffing, 20% professional & external resources, and 10% overheads. These figures are deemed conservative as senior team required for a wind-down could opt to waive compensation during the period.

These figures are reviewed on a quarterly basis and updated to reflect the any changes within the business/its book within the 'Wind Down Plan'. The volume of business the firm has received historically have been low and the product terms it offers fixed and therefore we consider it sufficient to undertake this monitoring on no more than a quarterly basis. This would change should indications suggests a difference, or the firm changes its model/products.

Insolvent Wind Down

In the case of an insolvent wind down our Principal, MLS, will manage and administer the wind down and our loan book. All of our live P2P loans will continue to be administered within their contractual terms that both lenders and borrowers had entered into by MLS to ensure that the requirements in SYSC 4.1.8C (4) are still met.

Furthermore, with regards to SYSC 4.1.8C (2) we have ensured that collateral is held to cover the cost of management and administration while the loan book is wound down if the firm becomes insolvent. The collateral held will be ringfenced so that in the event of insolvency there will still be sufficient funds to wind down the loan book. This collateral is provided to and held by MLS.

MLS have set out their projections for the cost of a fully funded wind down in their internal document 'MLS – SLS Wind Down Plan' and it believes that it will be able to continue to meet the cost of the plan. These figures are subject to change in line with changes within the business.

Procedure

Our focus is to maintain financial and non-financial resources to wind-down the firm. The Board will set out the minimum levels of resources required to affect our wind-down plan. The Board will analyse the adequacy of our financial resources to affect the wind-down. The financial data will include our:

- Balance sheet; and
- Profit and loss.

Our firm keeps financial projects in relation to the wind down which provides detail on items such as expected cost of winding down the loan book and the projected loan terms (document named: 'Wind down plan'). Management Information will be put forward to the board quarterly for analysis. The board will analyse all data against triggers based upon updated financial indicators and assess if action is to be taken by the Board of Directors and ongoing monitoring.

Predetermined financial indicators will trigger the following action

- If net current assets plus escrowed funds fall to 0.5 times the cost of winding down, the Board will action a wind-down of the firm.
 - This figure will be kept under review and revised, if necessary, following the firms quarterly monitoring of the 'Wind Down Plan'
- If net current assets plus escrowed funds plus future fees drop to 1.0-times cost of winding-down, the Board will action a recovery plan set out in our Governance process.
 - This figure will be kept under review and revised, if necessary, following the firms quarterly monitoring of the 'Wind Down Plan'

The recovery plan is dependent on the defined metrics of the plan. The board will then make the decision to wind down as per the timeline. Our Governance section within the Wind-down policy sets out (but not limited to) potential recovery possibilities that the board of directors can implement.

We will review each recovery option to determine the best solution and put together a plan to execute the recovery within a defined timeline set by the board of directors.

It is expected that where a recovery plan is implemented our first port of call will be to review our current operational cost, undertaken by the financial director and bring forward to the board of directors a proposal for cost reduction. This may be, for example, a reduction in marketing, salaries and an increase in Member administration fees.

How we monitor indicators/triggers

Triggers are monitored using data (such as performance and financial), harvested from our website, platform and CRM system (Hubspot). Performance data reflects how the firm is operating currently against past performance and such data includes:

- Number new Circle Members registered,
- Active Circle Members within the platform,
- Arrears and Defaulted loan rate (by number and monetary value),
- Number of complaints,
- Breaches detected

Financial information, such as monthly accounts and balance sheets are also monitored ongoing to ensure our financial resources remain above our predetermined financial indicators.

The above data is put forward as management information to the board of director, for horizon scanning, detecting possible risks/ threats that may influence or have a bearing on the firm. This is also reported to MLS through the Compliance Star systems utilised by both themselves and the Firm.

Triggers are independently reviewed quarterly by the board of directors to understand if the current triggers comply and if any additional triggers have been identified to be added to the list for monitoring.

Any significant event occurring within quarterly review would require the board of directors to review its current wind-down policy and procedure with immediate effect and if required to implement the recovery process set within the governance section of the wind-down policy and procedure.

As part of our wind-down review quarterly, we conduct a full wind-down financial forecast based on our current loan book and operational cost to determine if the current forecast for the cost is relevant to the size of our operations.

Recovery vs Wind-down

We have set out below certain scenarios and how we assess recovery options against wind-down:

The decline in business, is monitored against financial data such as monthly accounts and performance data. If net current asset plus escrowed funds plus future fees drop below 1.0 times the cost of winding-down the board of directors will action a recovery plan set out in our Governance process. However, the recovery plan can be introduced earlier if it is decided that current strategy will not be sufficient to recover the firm or, where it's determined the firm will meet the threshold for recovery sooner than anticipated. We would assess viable recovery options and the probability of achieving recovery within the timeline. To prevent disorderly wind-down, the board of directors can move to wind-down the firm prior to the secondary benchmark being met. Should net current assets plus escrowed funds plus future fees drop below 0.5x the wind down plan would be triggered immediately and we would follow our process in respect of this.

Bank provider refuses to provide ongoing service, we will look to make arrangements with a secondary provider for ongoing service in the scenario our primary bank was to discontinue. If closure was to come prior to a secondary account being open, the firm would reassess its level of resources and put in place a recovery plan. Banks will normally provide a timeframe from which the firm will assess if it has sufficient resources to implement recovery within the timeline presented. If not, we would wind-down the firm.

Client Account holder refuses to provide ongoing service, we use the services of MangoPay in order to hold client money on behalf of our Circle members. Should the cost of this be prohibitive or insufficient for our purposes we will consider a third party to do this. If the same issue persists with third parties we would wind-down the firm.

Directors/stakeholders wishing to exit the business without sale, the impact of such an event can be severe. In such cases we would work with the existing director/stakeholder to provide sufficient timeline for a replacement to be found or changes to be made internally to accommodate for the gap within the firm. We would work towards ensuring the skill gap and replacement of such individuals are completed within an agreed timeframe by the board-of-directors. This time frame would be based on what we seem suitable at the time. The firm will have a readily made a list of individuals or firms to approach to temporarily replace an existing director, if necessary. Available resources permitting.

Wind-down Decision

The decision to wind-down our Peer to Peer business would need to be unanimously agreed by the Board. The Board must seek regulatory compliance input from More Lending Solutions Limited and consult our Directors prior to making a decision to wind-down.

The Board will consider the viability of recovery options against the risks of disorderly failure if the decision to wind-down is delayed or deferred. The risks of disorderly failure in the event of delaying or deferring a decision to wind-down includes where the level of resources required to affect an orderly wind-down would no longer be available.

Where there is no consensus to wind-down the firm, we would look to a third-party firm to provide professional advice. This would likely be (but not restricted too) our professional accountants.

Based on the professional advice given, we will look to the board to agree on a motion for further action to be taken.

The advice will be provided in writing to all directors, so a fully informed decision and reasoning behind the advice can be considered.

Notifications

If the event of intended wind down, we will firstly contact our Principal to discuss our wind down plans and provide a wind-down notification. The Principal will be required themselves to notify the FCA in respect of this and we will obtain evidence that they have done so.

We will notify our Circle Members (lenders and borrowers) about our intentions to wind down our P2P business and will reiterate the wind down arrangements which they would have been made aware of when they first became a lenders and borrowers on our platform.

We will also notify the following: all relevant suppliers for key services such as Mangopay. Specifically, in the case of an insolvent wind-down MLS would take over our contract with Mangopay to instruct on transactions through the client money account.

Communication Arrangements

On the date that the procedure comes into effect, we will inform all stakeholders that we are no longer trading. This would be done by email initially, sent on the day of the policy taking effect.

A message will appear on our website saying *'StepLadder is not accepting any new investors or business. We are currently in the process of winding down the business. If you are an Circle Member and have any questions, please contact us at membership@step-ladder-solutions.com or 0333 880 1658.'*

We will leave communication channels open with investors via telephone and email as well as our instant chat feature on the website and the App provided to Circle Members. This will enable us to answer any questions and provide updates.

Contact will be made with Circle Members who have outstanding loans, and we will assist them where possible to find suitable exits to prevent loans defaulting.

Should MLS be taking over the loan book in the event of insolvent wind-down a message would go out to Circle Members stating this. The intention is that this will come from the firm unless for some

reason this is not possible. In which case MLS would use the contact details they hold for all Circle Members and inform them of this and the next steps.

Implementing the wind down

Once the wind-down procedure has been affected we will start to implement the scaling back of the business in accordance with our financial projections for this. As part of a resource assessment, where applicable, the firm will consider:

- Due invoices
- Current reserves
- Redundancy cost
- Legal fees, professional services and insolvency practitioner fees
- Other termination penalties and the costs of breaking contracts

Introduction of a wind-down will require the firm to reduce activities (such as marketing, salaries etc) which will see an estimated 85% reduction in total budgeted monthly operating costs. The calculation for winding down the firm has taken into consideration variable cost factors such as legal and professional fees, redundancy costs and storage. We will require CEO, Head of Membership and Head of Membership Operations for four months, then CEO plus Head of Membership Operations for a further eight months to effectively wind down the firm over a 12-month period. If the firm's wind down plan is required to be extended beyond this it will only require 1 Director (the CEO) on a part time basis to achieve this.

The below table shows what activities that will continue and those that will be suspended or reduced once the policy comes into effect.

Ongoing Activities	Activates Suspended
Platform Hosting	Marketing
Member support and communication	Employees, except wind-down staff
Administration of Circles and payment collection	Travel costs
Data Storage via HubSpot and MangoPay	Rent (office space)
3 rd party services, e.g insurance and credit bureau	Non-core software & comms services
Accounting software (Xero) and annual accounts	Management accounts, payroll, etc.

Redundancy will be actioned for the following staff with immediate effect by the directors of the company:

- Functional heads: Technology, Marketing, Communications, Partnerships
- Membership and community team members (up to four)

The directors of the firm could elect continue to work without pay, to see out the winding down process. This would materially reduce the projected expenses of the wind-down process.

Rental space cost will be eliminated. The entire wind-down team would be able to operate on a home office basis sufficiently to undertake the required activities for the time envisioned.

Hosting will continue, and costs towards management of the site will be paid ongoing to keep the website operational. However, any additional work for enhancement that were in place at the time will be suspended immediately and ongoing.

Loan contracts are have a weighted average term of less than 12 months, with initial administration fees already collected at the beginning of the loan term and on-going monthly fees to collect. During this period, existing Credit, AML and Collections Policy would apply – with consequent effect for customer non-compliance with payment of fixed monthly contributions.

Security

Client Money

In the case of a solvent wind-down we will continue to instruct Mangopay in respect of client money in accordance with their procedure until we have fully wound down our firm. Upon completion of wind down and all client money dealt with we will formally terminate our contract with them in writing. In the event of an insolvent wind-down MLS would take over our contract with Mangopay and instruct on client money until the loan book was wound down. At this stage they will notify Mangopay of the contract's termination.

All payments from ongoing loan agreements will be made directly into the client account.

Client Best Interest

We will ensure that the best interest of our clients is not adversely affected during the wind-down process by keeping our clients informed throughout the wind-down and providing our clients with a point of contact throughout the process (i.e. to address any queries or complaints). MLS will undertake the same in respect of an insolvent wind-down

Monitoring

We will discuss our wind-down plans with our Principal, and we will provide them with relevant information, to enable them to monitor our wind-down.

We will notify our Principal about any changes in our wind-down plan or any information that pertains to customer outcomes such as complaints.

Governance

Scenario Assessment

Our Board of Directors will continually assess the adequacy of our financial and non-financial resources and the viability of our business model. These items will be standing agenda items on our periodic Board meetings. Our Board will collect and analyse Management Information to monitor our business continuity risk profile and any emerging risks that may make our business unviable. The purpose of this is to ensure that we allow ourselves adequate time to consider and implement recovery options before making the decision to wind-down. The recovery options that may be available includes:

- Finding potential investors
- Reducing operational costs
- Selling company assets to increase liquidity

Our Board will unanimously decide scenarios that threaten the viability of our business. This will be updated on an ongoing basis to reflect changes in regulatory and market conditions. Changes in wind-down scenarios will trigger changes in our wind-down plan. This will include scenarios that require us to strategically exit the market and unexpected crises that affect the viability of our business.

Reverse Stress-testing

The scenarios which our Board assess could threaten the viability of our business includes:

- Loss of client base
- Significant financial losses with no signs of a timely recovery
- Loss of critical infrastructure (e.g. essential IT systems) with no signs of timely recovery
- Inability to source a funding project
- Legal and regulatory barriers to operating profitably
- Inadequate resources to meet the threshold conditions

Responsibilities and Reporting Lines

The current Managing Director of StepLadder and a staff member will handle the compliance function within the wind-down ensuring ongoing monitoring is constant with current triggers. They are also responsible for making revisions to the policy and procedures agreed by the board of directors and MLS, where they are not sufficient for the task or no longer compliant. Identifying possible risk/threat to the business and forwarding this information to the board of directors for further analysis, is conducted by the current Managing Director of StepLadder ongoing for early detection.

The current Managing Director of StepLadder will maintain all financial data and monitors financial indicators and financial resources requirement for wind-down ongoing against the benchmark predetermined. He is also responsible for reassessing the benchmark for recovery/wind-down and reporting the information to the board-of-directors. Management Information (financial data) is put forward to the board of directors for analysis and breaches are highlighted and reported where resources are not being met. Recovery plans requiring financial forecasting are created by the current Managing Director of StepLadder for review and implementation if agreed by the directors.

The current Managing Director of StepLadder monitors third-party relationships (such as the holding of client money) and handles front-end operations within the wind-down plan. He is responsible for implementing measures agreed by the board-of-directors for recovery or wind-down relating to cost reductions, staff redundancies or third-party contractors.

Policy and Procedure Review

The current Managing Director of StepLadder is nominated to review the suitability of this policy and procedure, at least, annually and sooner if a change is triggered by changes to the, 'Wind Down Plan', FCA rules, the Principals policy or our operations. Any material revisions to our policy and procedure will be subject to a review by our Board and MLS and be signed-off before implementation.