

Code of Practice

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CDFI Business Principles

The **cdfa** is the trade association for Community Development Finance Institutions (CDFIs). CDFIs are independent financial institutions that provide capital and support to enable individuals or organisations to develop and create wealth in disadvantaged communities or under-served markets.

The **cdfa**'s mission is to support the development of a thriving and sustainable community development finance (CDFI) sector that provides finance for disadvantaged and underserved communities and, as a consequence, contributes to the increasing prosperity of these communities.

Introduction

This Code sets out a series of key commitments and principles in accordance with which CDFIs should operate and which underpin good practice across the sector.

CDFIs use a number of different legal frameworks and therefore, the Code sets out to distil the commonalities between these different legal forms. Due to these different legal structures, it is recognised that not all CDFIs will be able to comply fully with this Code on its introduction. However, all **cdfa** members will be expected to work towards full compliance.

The importance of good practice

For the CDFI sector to grow and mature, it needs to demonstrate to its stakeholders its commitment to the highest standards of governance and best practice. To facilitate this, each member of the **cdfa** must ensure that their own organisation adequately addresses the issues set out in this Code.

What is governance?

Governance is “the systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of an organisation”.¹

Terminology

Throughout, this code uses the term Chief Executive as meaning a CDFI’s most senior member of staff, although we recognise that there are other titles used to describe that role. Similarly we refer to ‘the Board’ and ‘Board members’, although other terms may be used in some CDFIs.

The role of the Board and staff

The Board is the overall governing body of the CDFI. As such, it must be able to balance a commitment and willingness to achieve the CDFI’s mission and aims with the ability to ensure that the CDFI has the organisational strength and capacity to achieve that mission. The Board is responsible for developing and monitoring systems and controls. In so doing, it must make itself accountable to its stakeholders and act in a manner that is open and transparent.

Day-to-day management of the CDFI should be delegated to the Chief Executive and staff. Their responsibility is to manage the affairs of the organisation in accordance with the policies and decisions of the Board; to ensure that appropriate systems of control are in place; and to ensure that the Board receives the information necessary for it to monitor performance and determine policy.

Compliance

All CDFIs within the **cdfa**’s membership, and any applicants for membership, must adopt the Code of Practice and will be expected to work towards full compliance. Such compliance will be monitored by the **cdfa** via annual statements of compliance and explanation, filed as part of the **cdfa** annual members survey returns. Where a CDFI does not comply with specific parts of the Code, the statement should explain the reasons for non compliance and set out when full compliance can be expected.

If a CDFI’s governing document does not allow the organisation to comply, then the governing document must take precedence until such time as it can be amended. Any CDFI that cannot comply with parts of the Code should review their governing document, standing orders and other documentation, and aim to amend them to enable full compliance.

In order to ensure that the whole of the CDFI sector benefits from the common standards of good practice ensured by this Code, **cdfa** members that are unwilling to work towards full compliance will be considered by the **cdfa** Board, under clause 1.6.4 of the Articles of Association.

¹ ‘The Governance of Voluntary Organisations’, Comforth, 2003

The cdfa Performance Framework

The Code of Practice is an integral part of the Performance Framework, and is cross referenced throughout. As such, compliance checks will be carried out on a three year basis.

1. Governance Issues

1.1. Responsibilities of the Board

The Board should lead and set the strategic direction of the business of the CDFI. The Board has and must accept, both collectively and as individual directors, ultimate responsibility for directing the affairs of the CDFI, ensuring it is solvent, well run, and delivering the outcomes for which it has been set up.² The Board retains ultimate responsibility, even where it may have properly delegated its powers to a subcommittee or staff.

However, Board members should avoid becoming involved in day to day operational decisions and matters. The Chief Executive has responsibility for maintaining a clear division of roles between the Board and the staff team.

The essential functions of the Board should be formally recorded in the CDFI's governing document by standing orders. As a minimum, these essential functions should include clauses 1.1.1.to 1.1.5 below.

1.1.1 Legal duties

The Board must satisfy itself that the CDFI complies with all relevant laws, regulations and the requirements of its regulators, including the timely submission of accounts and returns.

1.1.2 Strategic development & policy making

The Board must define and ensure compliance with the objectives and values of the CDFI and of this Code and establish appropriate policies to achieve these objectives.

1.1.3 Monitoring performance

The Board must agree processes and procedures to enable monitoring of the CDFI's policies, procedures and finances.

1.1.4 Financial responsibility

The Board must ensure that the organisation is financially healthy and secure by monitoring financial indicators at least quarterly, setting annual

² Paraphrased from 'Good Governance: A Code for the Voluntary Sector'; published July 2005 by NCVO on behalf of the National Hub of Expertise in Governance

budgets and approving annual accounts. Clear financial standing orders should set out in detail financial approval and decision making processes, and how the Board will monitor the finances of the CDFI.

1.1.5 *Delegation*

The Board must establish and oversee a framework of delegation and systems of control, set out in standing orders and procedural documents. This must include clear terms of reference for any subcommittees, where the governing document or *standing orders* allows such delegation.

1.1.6 *Risk management*

The Board must establish or ratify policies and decisions on all matters that might create significant risk to the CDFI, financial or otherwise. Such policies should aim to control these risks appropriately.

1.1.7 *Staffing & employment*

The Board must appoint, induct and support the Chief Executive, and motivate management to achieve best practice in all areas of its work. The Board must also, if necessary, implement disciplinary procedures (up to and including dismissal) against the Chief Executive. The Board should also determine the appropriate level of remuneration for this post.

1.1.8 *Advocacy*

The Board must be an advocate and champion of the CDFI.

1.1.9 *Representation and accountability*

The Board must always act in the best interests of the CDFI. It must represent the interests of the CDFI's shareholders and/or members (in the case of membership organisations) and ensure that there are procedures in place for reporting back to them.

1.1.10 *Equal Opportunities*

The Board must ensure that clear policies are developed, implemented and monitored in relation to equal opportunities as they affect clients, staff, volunteers and the Board itself.

1. 2. The responsibilities of individual Board members

Each Board member should be given written notification of their responsibilities as a Board member, and should sign a copy to indicate their acceptance. This should include the following obligations:

1.2.1 *Contribute & share responsibility*

Board members should use their skills and experience to help the Board make appropriate decisions. They should share responsibility for and

uphold all decisions made by the Board. All Board members are equally responsible in law for the Board's actions and decisions, and have equal status as Board members³.

1.2.2 *Support objectives & policies*

Board members must support the CDFI's objectives and policies, as agreed.

1.2.3 *Maintain independence as a Board member*

Each and every Board member must act as an individual, and not as the representative of any group or organisation. This applies regardless of how that person was nominated, elected or selected to become a Board member. Board members must ensure that they remain independent, and do not come under the control or influence of any external organisation or individual.⁴ Board members must always act in the best interests of the CDFI.

1.2.4 *Confidentiality*

Board members must respect the confidentiality of information provided to the Board.

1.2.5 *Conflicts of Interest*

Board members should always declare any conflicts of interest that may arise as a result of having an involvement or connection with any person or organisation with which the CDFI (or its formal partners) has dealings (see clause 1.4.9 of this Code).

1.2.6 *Prepare & attend*

Board members should prepare for meetings commensurate with their duties and attend them as required.

1.2.7 *Contribute outside of Board meetings*

Board members should attend additional meetings within the CDFI or with external agencies, as appropriate, and whenever possible, attend any training organised for Board members.

1.2.8 *Uphold the cdfa's Code of Practice.*

Board members must support and uphold this Code of Practice.

³ Good Governance, *ibid*

⁴ Good Governance, *ibid*

1.3 Responsibilities of the Chair

The Chair of the CDFI has particular and specific duties and responsibilities. The Board should define these in writing. As a minimum, these will include the following duties:

1.3.1 Efficient conduct of business:

Ensure the efficient conduct of the Board's business and the CDFI's general meetings.

1.3.2 Decision making:

Ensure that all Board members are given the opportunity to express their views as appropriate before any important decisions are taken.

1.3.3 Relationship with the Chief Executive:

Establish a constructive working relationship with, and provide support to, the Chief Executive.

1.3.4 Delegation of authority:

Ensure that the Board delegates sufficient authority to its subcommittees (where such subcommittees exist), Chief Executive and Chair, to enable the business of the CDFI to be carried on effectively between meetings.

1.3.5 Compliance with this Code

The Chair should ensure that the CDFI complies with this Code of Practice⁵.

1.3.6 Professional advice:

Ensure the Board receives professional advice where necessary or where requested by other Board members.

1.3.7 Appraisal of the Chief Executive:

Appraise the performance of the Chief Executive and ensure that recruitment and employment of the Chief Executive complies with employment legislation and good practice.⁶

1.3.8 Review of the Board:

Ensure that the composition of the Board and the skills of its individual members are periodically reviewed in line with this Code, and that action is taken to remedy any gaps identified.

1.3.9 Representation:

Represent the CDFI as required.

⁵ Good Governance, *ibid*

⁶ Good Governance, *ibid*

1.4 The Operation of the Board

1.4.1 Size

CDFI boards should have at least five members (excluding co-optees) to enable them to conduct their business properly and efficiently.

1.4.2 Frequency of Board meetings

The Board should meet as frequently as needed to ensure fulfilment of its duties and responsibilities, but as a minimum four times per year.

1.4.3 Quorum

CDFI boards should aim to conduct their business with as high a proportion of members present as possible. However, there may be circumstances when this will not be possible and for that reason a quorum must be agreed and recorded. This will generally be set within the governing document *or standing orders*, but should require as a minimum one third of Board members (not including co-optees) to be present.

1.4.4 Non attendance at Board meetings

If a Board member fails to attend three consecutive Board meetings without setting out an appropriate reason in writing to the Board, the Board should be entitled to remove that person as a Board member. This will need to form part of the governing document or be set into the standing orders of the CDFI.

1.4.5 Induction & Board development

All Board members should be offered an induction programme and subsequent opportunities to develop their knowledge and skills in ways which will enable them to carry out effectively their responsibilities as Board members.

1.4.6 Decision making

Board decisions should be, wherever possible, based on full agendas and documents circulated to members in advance of meetings. Points for decision should be clearly identified and decisions clearly recorded in the minutes.

The Board should ensure it receives the information and advice needed to make good decisions.

Board papers should be well presented, circulated in advance of board meetings, and make clear recommendations to the board in situations where a decision is required.

1.4.7 Separation of strategic and operational roles

The Chief Executive has responsibility for maintaining a clear division of responsibilities between the Board and the staff team. S/he should provide an effective link between the Board and staff, informing and implementing strategic decisions of the Board. Board members should not seek to become directly involved in decisions which have been properly delegated to staff. Where necessary the Board should raise any such issues through the Chief Executive.⁷

1.4.8 Urgent decisions

Urgent decisions should be taken in accordance with predetermined arrangements set out in standing orders.

1.4.9 Conflicts of interest

The CDFI must have procedures for Board members to declare actual or potential conflicts of interest to the Board; such declarations should be made at the earliest opportunity. They should be recorded in Board minutes or in a register kept for the purpose. Where a conflict of interest arises at a Board meeting, the Board member concerned should not vote on the matter or participate in the discussions. S/he should also offer to withdraw from the meeting, and the Board should decide if this is required. Where a Board member has a major or ongoing conflict of interest, s/he should offer to resign from the Board.⁸

1.4.10 Periodic review

At agreed intervals, the Board should set aside time for a full discussion about the effectiveness with which it is conducting its business.

⁷ Paraphrased from Good Governance, *ibid*

⁸ Good Governance, *ibid*

1.4.11 *Exit interviews*

All departing Board members should be interviewed by the Chair and be given the chance to record their views on the operation of the Board and the organisation. This should then be reported back to the wider Board. In some cases, the Chair may delegate this interview to another Board member, if requested by the person departing.

1.4.12 *Receipt of gifts or hospitality*

The Board should establish a policy on the receipt of hospitality and gifts by Board members and staff. Board members and staff should declare all personal gifts received and hospitality accepted while on the CDFI's business, or from people or organisations connected with the CDFI. Such declarations should be recorded in the Board's minutes or in a register kept for that purpose.

Board members and staff should not accept gifts with a significant monetary value or lavish hospitality. Where this may be a frequent issue, the CDFI should set a policy to define what is and is not acceptable.⁹

1.4.13 *Board expenses and remuneration*

The Board should set a policy on payment of expenses and/or remuneration for services to Board members. Board members may be only be remunerated on terms and conditions set out in the governing document or standing orders of the CDFI.

1.4.14 *The prevention of receipt of financial services from the CDFI*

The Board must ensure robust policies and procedures to prevent declare a conflict of interest Board members and staff, or their immediate families, receiving loans, investments or other financial products from the CDFI. This will always represent an unacceptable conflict of interest, and policies must make it clear that any such transaction would lead to the resignation of, or the taking of disciplinary action against, any parties involved.

1.5 Renewal and Composition of the Board

1.5.1 *Board members standing down*

Board members should stand down on a systematic basis, to allow an open and transparent process for new individuals to stand for Board membership. To avoid upheavals in business continuity, Board members should not all stand down at the same time, but in proportions of the whole Board (eg one third or one half each year) as set out in the governing document or standing orders.

Maximum terms of office for Board members, the number of consecutive terms that may be served by a given Board member, and the period of

⁹ Good Governance, *ibid*

time to elapse before an individual is eligible for re-election or re-appointment to the Board should all be set into the governing document or standing orders.

1.5.2 Recruitment & Selection of Board members

The Board should agree standing orders to cover procedures for:

- The recruitment or election of new members
- The qualities, skills and experience considered necessary
- Election or appointment of the Chair and other Officers
- The maximum period in terms of office for the Chair and other officers
- People who are excluded from membership on account of their previous conduct, present circumstances or status.

CDFIs should not appoint Board members who:

- Are the subject of a disqualification order under the Company Director's Disqualification Act 1986.
- Have been convicted of an offence where the conviction is not treated as spent under the Rehabilitation of Offenders Act 1974.
- Are prohibited by the Financial Services Authority from undertaking a controlled function.
- Are un-discharged bankrupts.

1.5.3 Skills and Experience of Board Members

The Board should collectively provide a mix of skills, experience, qualities and knowledge appropriate to the work of the CDFI, so that the CDFI can respond to the challenges and opportunities it faces.

The experience of Board members should cover:

- Governance, finance, business and management
- The regulatory and legal framework within which the CDFI operates¹⁰

Ideally Board members might also have experience in:

- Providing strategic leadership and working as a team
- Direct knowledge of the CDFI's target clients, whether gained through life or work experience
- Human resources and diversity
- The operating environment and risks that exist for the organisation

1.5.4 Co-options to the Board

Individuals may be co-opted to serve on the Board where the governing instrument allows. Co-option may be used to recruit individuals with particular skills and expertise or independence, as required, but the

¹⁰ Paraphrased from Good Governance, ibid

number of co-optees should never exceed one third of the total number of Board members.

1.5.5 *Diversity of Board Membership*

In determining a policy for recruitment of new Board members, some priority should be given to ensuring diversity of Board membership, within the context of ensuring that Board members have the skills required for the role. Policies aiming to ensure that the Board is balanced with regard to race and gender, and that people with disabilities have representation, will increase the abilities of the Board to promote an inclusive society in line with the mission of CDFIs.

1.5.6 *Staff of the CDFI as Board members*

Staff of the CDFI may only become Board members where this is permitted by law and by the governing document. It should also be agreed by the Board as being demonstrably in the interests of the CDFI, and as not creating unacceptable conflicts of interest. A staff Board member should not be eligible to become Chair of the CDFI, and staff Board members must never form a majority on the Board.¹¹

1.5.7 *Representation of Clients & The Local Community*

Where it is felt that there needs to be representation of clients and/or the local community and these cannot be otherwise accommodated on the Board, consideration should be given to the use of advisory groups or focus groups.

1.6 Committees of the Board

The Board may delegate work to subcommittees if this is allowed within the CDFI's governing document *or standing orders*. It is vital that Board of a CDFI does not operate any system of delegation to subcommittees unless given the powers to do so in its governing document *or standing orders*.

Amongst CDFIs the most common of these subcommittees are those dealing with lending/loans, investment, risk management and finance/audit.

1.6.1 *Terms of Reference:*

Each subcommittee should have clear terms of reference approved by the Board and should report regularly to the Board.

¹¹ Paraphrased from Good Governance, *ibid*

1.6.2 Membership of Subcommittees, and delegation of decision making.

Dependent on the governing document or standing orders, these subcommittees might have delegated authority to make decisions, and might include non Board members as subcommittee members. Subcommittees without delegated authority must operate by making recommendations to the Board.

However the full Board remains responsible for the decision of any subcommittee, whether it has delegated authority or not. The Board must therefore agree and set out in writing any delegation of authority in the terms of reference of each subcommittee. The powers delegated must be set out in detail, and make clear any limits to the decision making powers of the subcommittee, and at what point decisions should be referred to the main Board.

A subcommittee with delegated powers of decision making should be:

- Chaired by a Board member, and ideally, should have a majority of Board members.
- Where non Board members are members of a subcommittee they must have the necessary skills and experience in the work area of the subcommittee, and have been asked to evidence these.
- Any subcommittee with delegated powers must be attended and advised by a member of the CDFI staff having professional expertise in the work area of the subcommittee.
- Minutes must be kept at all subcommittees. Even where the subcommittee has delegated powers of decision making, the minutes must form a standing agenda item for full Board meetings, and be presented to the Board for information.

1.6.3 Disputes

In the event of a dispute, the Board's decisions must override those of any subcommittee.

1.7 The Board and Risk¹²

The Board must act prudently to protect the assets and property of the CDFI, and ensure that they are used to deliver the CDFI's objectives and mission. The Board must regularly review the risks to which the CDFI is subject, and take action to mitigate risks identified.

1.7.1 Avoidance of risk

The Board must avoid undertaking activities which might place at undue risk the CDFI's clients, shareholders, investors, staff, property, assets or reputation, or that might risk damaging the CDFI sector or the **cdfa**.

¹² Paraphrased Good Governance, ibid

1.7.2 Investment and borrowing risk

The Board must exercise special care if investing the CDFI's funds, or borrowing funds for it to use, and must comply with its governing document or standing orders and any other legal requirements in so doing.

1.7.3 Risk Assessment

Board members should understand the risks facing the CDFI, and how these are managed and minimised. The Board should undertake a full risk assessment (either periodically or on a rolling basis) and take appropriate steps to manage the CDFI's exposure to significant risks.

1.7.4 Professional Advice

The Board should obtain advice from professional advisers or others on all matters where there may be material risk to the CDFI, or where Board members may be in breach of their duties.

1.7.5 Dealing with conflict

The Board should take ultimate responsibility for ensuring that conflicts that may arise within the CDFI are effectively dealt with and managed. This includes conflicts arising between Board members, staff, the Chief Executive, members (where applicable) and clients.

1.7.6 Whistle blowing

The Board should have a whistle blowing policy and procedures to allow confidential reporting of matters of concern, such as misconduct, misuse of funds, mismanagement, and risks to the CDFI or to people connected with it.

The policy and procedures will need to be commensurate with the size of the CDFI, but should:

- be accessible and open to staff, Board members and partners of the CDFI
- provide for those who are not confident about raising a concern with their line manager or a senior manager to have direct access to a Board member, an independent person or a regulatory body
- ensure people who raise such concerns in good faith that they need have no fear of reprisals or other adverse consequences
- ensure that all such concerns will be properly assessed and investigated in a way that is fair to the whistleblower and others involved
- provide for appropriate action to be taken where a concern is shown to be well founded

1.8 Group Structures

In some instances, CDFIs operate a group structure involving two or more legal entities operating together, to deliver different services. Where this is the case, it is essential that the Board of each organisation operates discretely, always strictly within the terms of reference of each organisation and in accordance with the requirements of the organisation responsible for regulation (eg FSA, Companies House & the Charity Commission).

2. Practice Issues

There are various legal forms currently used by CDFIs including:

- Companies Limited by Guarantee
- Companies Limited by Shares
- Industrial & Provident Societies
- Banks
- Limited Liability Partnerships
- Community Interest Companies
- Some CDFIs have charitable objectives and are also registered as charities with the Charity Commission.

As a result, there is no one regulatory body, but several: Companies House, the FSA and the Charity Commission. Although there is no one set of regulations to which all CDFIs have to conform, there are clearly a range of issues where 'best practice' is essential (see below).

2.1 Systems & Control

The Board needs to satisfy itself that there are adequate systems and controls in place to ensure that the CDFI is well managed, is financially sound and that all risks are mitigated. These should include:

2.1.1. Business Planning:

The CDFI should produce a business plan that is updated and reviewed on a regular basis, at least annually.

2.1.2 Budget & Cashflow

The CDFI must produce and work to an annual budget and regular cash flow analyses, against which performance should be reviewed on a regular basis throughout the financial year. This would normally be carried out on a monthly basis and should be done at least quarterly.

2.1.3 Accounts

The CDFI must maintain a system of management accounting leading to year-end audited accounts, undertaken by a suitably qualified external auditor.

2.1.4 Solvency/Liquidity

The CDFI must maintain adequate capital resources and liquid assets commensurate with the nature and scale of its business and the risks inherent in its business.

2.1.5 Reserves

CDFIs should aim to build up appropriate reserves to underpin their operations, based on policies and projections commensurate with the scale of their operations and risk profiles.

2.1.6 Key performance indicators

The CDFI will operate within the **cdfa** Performance Framework and use the framework's performance indicators as a basis for reporting to the Board alongside statutory/management accounts.

2.1.7 Portfolio Management

Effective systems should be implemented to facilitate due diligence in advance of lending and also post-lending portfolio management.

2.1.8 Internal controls:

A set of procedures designed to protect against financial mismanagement and fraud. These will include:

- Separation of duties, in such a way that more than one person has to be involved in important decisions/processes.
- Checklists and signing-off, signifying that specific checks or procedures have been followed.
- Restricting authority with the help of third parties, for example bank mandates and standing instructions to solicitors.

2.1.9 External Audit

All CDFIs should ensure that:

- External auditors are independent and effective.
- There is a proper procedure for their selection.
- A periodic review of their appointment takes place.

2.1.10 Internal Audit

Larger CDFIs may separate out an internal audit function (perhaps by setting up an audit committee) that should have an overview of:

- Finance reporting
- Internal controls
- External audit

2.1.11 Insurance

CDFI's should take out appropriate insurances to cover the organisation against losses arising from fraud. This should include Fidelity Insurance and/or Officers and Directors' Insurance.

2.1.12 Money Laundering & Proceeds of Crime Act

Clarify when this is necessary and then appoint or designate a suitably trained Money Laundering Reporting Officer (MLRO). This may be an internal or external appointment. In smaller CDFIs, the role of MLRO may form part of a staff member's responsibilities.

The functions of the MLRO will be:

- To establish and maintain procedures to prevent money laundering
- To establish and maintain awareness among the CDFI's staff of the procedures to prevent money laundering, including the provision of training
- Receiving internal money laundering reports on suspicious activity
- Making external reports to the Serious Organised Crime Agency (SOCA) if it is considered that the suspicion is justified. This must include full co-operation with SOCA, and the identification of individual borrowers and information about their accounts if required, irrespective of duties of confidentiality.

CDFIs must be satisfied about the validity of the identity of all borrowers.

2.1.13 Conflicts of Interest

Members of staff are required to declare any conflict of interest arising in connection with the CDFI's activities, whether financial or other, which might influence their decisions or lead to personal gain.

2.1.14 Staff Training & Appraisal

Systems should be in place to ensure that staff are offered appropriate induction and training to enable them to carry out their duties and that appraisals are carried out to assess levels of professional competence. This should include training in the operation of this Code of Practice.

2.2. Raising Investment/Financial Promotions

When raising funds by means of a prospectus, advertising or website, a CDFI should observe the following:

2.2.1 Responsibility not to mislead

CDFIs must be careful not to mislead investors, especially into thinking that their financial promotions are subject to regulation by a statutory agency (eg in the case of I&P Societies, by the FSA via the Financial Services & Markets Act 2000) when it is not the case. The Board must ensure that the wording of any share issues or invitations to invest in the CDFI have first been approved by a suitably qualified person.

2.2.2 Transparency about risk

Investors must be given enough information to make an informed decision and the element of risk should be made explicit (eg. that loans undertaken by CDFIs may be unsecured). Accounts and reports to investors should be clear and transparent and not mislead investors about the financial health of the CDFI.

2.2.3 Targeting Investors

CDFIs should endeavour to target prospective investors who are equipped to understand the risk (or have access to external, professional advice, attached to their investment). Exceptions to this will be membership organisations offering fixed, low cost shares as a form of membership of the CDFI.

The Board must ensure that prospective investors understand that investments in CDFIs are risk capital, and not equivalent to deposits (with the exception of CDFIs that are banks).

2.2.4 Identification of investors

Especially in the case of prospective retail investors, CDFIs should take reasonable steps to verify their identity with a view to preventing money laundering.

2.3 Marketing Financial Products

2.3.1 Clarity in respect of loan interest rates

There should be clarity in respect of the interest rates that will be charged and any additional fees that may be incurred in borrowing money.

2.3.2 Clear repayment, default and cancellation arrangements

Arrangements for repayment should be clearly set out, as should arrangements/penalties relating to cancellation or default of payment.

2.3.3 Provision of advice/guidance to borrowers

The CDFI should make clear what advice and support is available to borrowers once the loan has been taken out.

2.3.4 Compliance with consumer protection legislation

Where borrowers are individuals, the CDFI must take care to comply with the Consumer Credit Act (where CDFIs are entering into regulated agreements they will need to obtain a licence from the Office of Fair Trading). In relation to borrowers who are individuals, the CDFI must also comply with the Unfair Terms In Contracts Regulations.

2.3.5 Compliance with advertising codes

CDFIs must ensure that any advertisements must comply with any relevant code and/or legislation (eg. The British Code of Advertising, Sales Promotion and Direct Marketing). CDFIs should (take legal advice on) establish whether its products are ones which fall within the scope of the Financial Services Act.

2.3.6 The objective of CDFIs is to provide access to finance where the mainstream financial services market is failing to deliver. CDFIs should ensure that customers are aware of mainstream providers (prior to offering customers their own products), for example in the letter of offer or on their website.

2.4 Consumer Satisfaction/Complaints

2.4.1 Consumer (Satisfaction) Service

CDFIs should establish and monitor performance standards for key areas of their operations.

CDFIs should assess consumer satisfaction on an ongoing basis.

2.4.2 *Procedures for dealing with complaints*

CDFIs should have in place speedy, responsive, accessible and user friendly procedures for dealing with complaints from individuals and businesses lending or borrowing money from the CDFI. These must be publicised by CDFIs at point of sale and/or in their contractual material at an appropriate point in the sales process. Information to consumers should also give information about the Financial Ombudsman Service and provide contact details.

2.4.3 *Co-operation with local consumer advisors and intermediaries*

Subject to holding the client's written authority, CDFIs should offer maximum co-operation with local consumer advisers or any other intermediary consulted by the individual or business making a complaint.

2.4.4 *Conciliation*

CDFIs must offer complainants access to a conciliation service.

2.5 Publicising the Code

2.5.1. Customer Awareness

CDFIs must ensure that their customers are aware of this Code, make clear their adherence to it, and any areas in which there is variation from the Code, and ensure that it is readily available without charge.

3. Further information

Community Development Finance Association (cdfa)

Room 101,
Hatton Square Business Centre
16/16a Baldwins Gardens
London EC1N 7RJ
Tel: 020 7430 0222
Web: www.cdfa.org.uk

See Guide to Building A CDFI: September 2005

Financial Services Authority (FSA)

25 The North Colonnade,
Canary Wharf
London E14 5HS
Tel: 020 7066 1000
Web: www.fsa.gov

Responsible for registering Industrial & Provident Societies. Extensive website containing much guidance and many publications. UK- wide

Companies House

Crown Way
Maindy
Cardiff C14 3UZ
Tel: 0870 3333 636
Web: www.companies-house.gov.uk

Responsible for registering Companies UK- wide. A wide range of good publications on registration and operation of companies.

Community Interest Companies Regulator
c/o Companies House
Crown Way
Maindy
Cardiff CF14 3UZ
Tel. 029 2034 6228
Web: www.cicregulator.gov.uk

Newly established and responsible for regulating Community Interest Companies UK- wide.

Charity Commission of England and Wales
Offices in: London, Liverpool, Taunton, Newport (full details on website).
Tel: 0870 3330 123
Web: www.charity-commission.gov.uk

Responsible for registering & regulating charities. A wide range of very good publications on charity registration and operation.

Scottish Charity Regulator
Office of the Scottish Charity Regulator
1st Floor, Argyll House
Marketgait
Dundee
DD1 1QP
Tel: 01382 220 446
Web: www.oscr.org.uk

Charities in Northern Ireland
Charities Branch
Department for Social Development
The Voluntary and Community Unit
1 Cromac Place
Gasworks Business Park
Ormeau Road
Belfast BT7 2JB
Tel: 02890 829 414

Office of Fair Trading

Fleetbank House
2-6 Salisbury Square
London EC4Y 8JX
Tel: 020 7211 8000
Web: www.oft.gov.uk

OFT is concerned with making markets work for consumers. Extensive website. Very helpful guidance in relation to The Consumer Credit Act.

Trading Standards

www.tradingstandards.gov.uk

Website provides a link to each local Trading Standards Service which in turn is responsible for enforcing 80 Acts of Parliament including The Consumer Credit Act.

BERR

1 Victoria St,
London SW1
Tel: 020 7215 5000
www.berr.gov.uk

A mine of information for businesses.

Business Link

www.businesslink.gov.uk

Tel: 0845 6009 006

The government site for practical business advice and help for small businesses.

HM Revenue and Customs

www.hmrc.gov.uk

HMRC is responsible for collecting the bulk of tax revenue, as well as paying Tax Credits and Child Benefits.

Annexe
CDFI Business Principles

1. **Integrity:** A CDFI will conduct its business honestly and in accordance with the standards of conduct agreed within the Sector for CDFIs.
2. **Skill, Care & Diligence:** A CDFI will also conduct its business with due skill, care and diligence.
3. **Management & Control:** A CDFI will undertake to organise and control its affairs responsibly and effectively, with adequate risk management systems.
4. **Financial Prudence:** A CDFI will maintain adequate financial resources at all times.
5. **Investors & Borrowers Interests:** A CDFI will pay due regard to the interests of both investors and borrowers and treat them fairly.
6. **Rates of Interest:** A CDFI will not charge rates of interest that are disproportionate to the level of risk involved. Interest rates will be fair in all the circumstances.
7. **Communications with Investors & Borrowers:** A CDFI will undertake to communicate information to investors and borrowers in a way that is clear, fair and not misleading.
8. **Conflicts of Interest:** A CDFI will manage any conflicts of interest arising out of its governance or business activities.
9. **Borrowers:** A CDFI will take care to ensure the suitability of its advice and discretionary decisions relating to any borrower who is entitled to rely on its judgement.
10. **Complaints:** A CDFI will deal honestly and efficiently with all complaints and if necessary will take part in conciliation or go to arbitration.
11. **Relations with Regulators:** A CDFI will deal with their regulators in an open and co-operative way where appropriate
12. **Social Impact:** A CDFI will take steps to measure and report on its social impact.

December 2007