

FLA Business Finance Code

Guidance to members

June 2011

Introduction

This Code sets out the standards that FLA members will meet when providing asset finance to businesses and the public sector.

Compliance with the Code is a condition of FLA membership. Members' compliance with the Code is governed by the FLA's Business Code Group. In the event of continued or repeated non-compliance, the FLA will take action, including a warning or expulsion from FLA membership.

The FLA operates a conciliation procedure for customer complaints that cannot be resolved by members, and also offers an independent mediation scheme.

The FLA Business Finance Code

Commitments

1. FLA members will abide by the Code and all relevant laws and regulations, will trade fairly and responsibly with customers, and will promote responsible trading between intermediaries and customers.
2. Before a business finance agreement is contracted, FLA members will provide customers with appropriate information.
3. FLA members will make business finance agreements that are clear and fair.
4. FLA Members will provide effective customer service.
5. FLA Members will clearly explain the options available to customers at the expiry or termination of business finance agreements.
6. Members will operate appropriate complaints procedures.

Guidance Notes

Commitment 1: FLA members will abide by the Code and all relevant laws and regulations, will trade fairly and responsibly with Customers, and will promote responsible trading between intermediaries and customers	
FLA members will meet the Commitment by:	
Abiding by the Code	<p>1.1 Providing adequate training for staff, bringing this Code to their attention as relevant to them, and requiring them to carry out their duties in accordance with it.</p> <p>1.2 Following the Code throughout the course of the company's business finance activities, including in respect of assigned agreements, from the date of assignment.</p> <p>1.3 Encouraging businesses who introduce customers to them to meet any relevant parts of this Code.</p>
Maintaining general standards of professional conduct	<p>1.4 Respecting the confidentiality of information supplied by customers.</p> <p>1.5 Not knowingly misrepresenting facts to customers.</p> <p>1.6 Considering cases of financial difficulty reasonably in light of the customer's circumstances.</p> <p>1.7 Avoiding contributing to conflicts of interests by disclosing any fees paid by FLA members to customers' retained advisers in the public sector.</p>
Making agreements that are appropriate to the assets being	<p>1.8 Before a business finance agreement for office equipment is made with customers who are introduced by office equipment suppliers, and the value of the assets financed is under £50,000¹, providing the customer with the checklist for business finance customers (see Appendix 1).</p>

¹ 'Annual rentals of less than £15,000' may be taken as a proxy for 'Value of assets financed under £50,000' throughout this Guidance.

financed	<p>1.9 Ensuring that minimum periods of hire are no longer than a period reasonable in relation to the expected working life of the assets financed, provided the assets are maintained in accordance with the manufacturer's recommendations. Members should use judgement in assessing the reasonable period of hire. All periods should be consistent with the commitment to trade fairly and responsibly. Most office equipment including multi-functional devices should be leased for not more than five years. The reasonable period for some equipment may well be less than this. Regardless of whether the customer has signed a declaration accepting responsibility for the life of the equipment, the members should judge that the minimum period of hire is reasonable in relation to the expected working life.</p> <p>1.10 For new operating lease business finance agreements with the public sector, basing the agreement on residual values that are appropriate to the asset being financed.</p>
Protecting the reputation of the Industry	<p>1.11 Notifying the FLA of any matters which might adversely affect the reputation of the industry or the FLA, whilst protecting client confidentiality.</p> <p>1.12 Reviewing annually compliance with the Code, and confirming to the FLA that the Code has been followed.</p>

Commitment 2: Before a business finance agreement is contracted, FLA members will provide customers with appropriate information.

FLA members will meet the Commitment by:

<p>Providing information on the cost and duration of the agreement</p>	<p>2.1 Providing relevant information on the payments to be made and the duration of the agreement.</p> <p>2.2 For office equipment, where customers have been introduced by office equipment suppliers or finance brokers, relevant information will include:</p> <ul style="list-style-type: none"> ▪ The rental payments and the minimum total value of such payments to be made by the customer. ▪ The minimum or initial period of hire. ▪ The amounts of any other known charges, including for administration and equipment maintenance, throughout the life of the agreement, in addition to the rental. ▪ Any cost per unit use charges. ▪ Any provision for increase in the amount of rentals or charges, with details of any notice period that would be given, other than for default or non-payment. ▪ If a business finance agreement, where the value of the assets financed is under £50,000, includes an element of refinancing from another provider, the amount that the new provider has been asked to include in the new agreement. ▪ Arrangements for equipment change, equipment upgrade, review of period of hire, or any other date or period which may alter the amount of repayments.
<p>Providing information on services provided during the agreement</p>	<p>2.3 Providing relevant information on services to be provided, including:</p> <ul style="list-style-type: none"> ▪ The amount of rental payments attributable to charges for services, except where it is clearly stated that the business finance agreement is inclusive of services, (for example a “bundled agreement” with a captive finance company). ▪ The period during which the supply of services will continue, if that period is different from the minimum period of

	<p>hire, and the cost of the supply of services after the end of that period.</p> <ul style="list-style-type: none"> ▪ Any limitation on the amount or volume of services provided, and the cost of the supply of services after any such limitation has been exceeded. ▪ Any increase in the amount of any charges for services which will occur without any action or notice by the member or supplier, other than changes in VAT.
Providing information on what happens at the end of the agreement	<p>2.4 Providing information on:</p> <ul style="list-style-type: none"> ▪ Any period of notice required in order for the customer to terminate the agreement. ▪ Any payments or charges payable by the customer upon early termination of the agreement.
Making clear with whom the business finance agreement will be agreed	<p>2.5 Making clear when a business finance agreement, other than an undisclosed agreement, is designed for placement with one of a number of potential alternative lessors.</p> <p>2.6 Making clear whether the business finance agreement is being made with the supplier/manufacturer, or a separate company.</p> <p>2.7 Making clear who will provide any services included in the agreement.</p>
Providing additional information for public sector customers	<p>2.8 Providing information to public sector customers on:</p> <ul style="list-style-type: none"> ▪ Any commission, fee or other payment that the member will pay to an advisor acting on behalf of an NHS Trust or Foundation Trust. ▪ Any arrangement with a third party covering the member's exposure to the residual value of the equipment. ▪ Where the member is acting as a broker, the nature of any mandates or agency agreements entered into between the member and the lessor which relate to the transaction.

Commitment 3: FLA members will make business finance agreements that are clear and fair

FLA members will meet the Commitment by:

- 3.1 When a business finance agreement continues without amendment, beyond a minimum/initial period of hire, giving the customer the right to terminate the agreement at any time by giving not more than 3 months notice.
- 3.2 Including a discount in the termination figure to reflect accelerated receipt of future rental payments, excluding any part of such rentals attributable to charges for services.
- 3.3 Excluding from the termination figure the price of any services which will not be required following termination, if a contract for support services has already finished.
- 3.4 For office equipment agreements, where customers have been introduced by office equipment suppliers or finance brokers, if a contract for services has not already finished including not more than six months of service charges in the termination figure.

Commitment 4: FLA Members will provide effective customer service	
FLA members will meet the Commitment by:	
	4.1 Having effective procedures in place for responding to customer enquiries or problems throughout the life of the agreement. 4.2 Notifying customers in advance of fees that are payable for <i>ad hoc</i> services.

Commitment 5: FLA Members will clearly explain the options available to customers at the expiry or termination of business finance agreements

FLA members will meet the Commitment by:

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| <ul style="list-style-type: none">5.1 Supplying to a customer an early termination figure upon their request.5.2 Providing a reminder to customers, setting out the options available, when the customer is required to give notice to terminate at the expiry of a minimum/initial period of hire, between three months and one month before the last date on which the customer can give notice.5.3 At the expiry of every public sector business finance agreement under which the member retains residual value rights, considering any reasonable requests by the customer to retain possession/use of the asset for an appropriate period, and agreeing a new business finance agreement at a fair market rate. If residual value rights are sold to another member, that member should also consider such requests. |
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Commitment 6: Members will operate appropriate complaints procedures

FLA members will meet the Commitment by:

Complaints procedures	6.1 Having in place appropriate procedures for addressing complaints. 6.2 Providing details of the FLA's conciliation and mediation schemes to customers making complaints.
Participation in FLA conciliation scheme	6.3 On receipt of a complaint referred from the FLA, instigating an investigation and sending an initial response to the complainant within ten business days.

Appendix 1: Checklist for business finance customers

Customers who are introduced by office equipment suppliers are recommended to take the following steps:

1. Ensure with the supplier that the office equipment is new, or if not that you are content that used or refurbished office equipment is suitable, and that the minimum period of hire is no longer than your expectation of the working life of the equipment.
2. Always ensure that the completed contract corresponds with any verbal or written quotation, and that the equipment description accurately reflects what you are agreeing to pay for including any maintenance or services included in the repayments.
3. Ensure that the supplier of any office equipment involved is reputable and an accredited supplier of the equipment involved.
4. Make it clear within your own organisation who can sign such agreements.
5. Read your business finance agreement carefully before signing it and ensure it is correct, particularly in respect of the rental amount and the period of hire. Never sign a business finance agreement which is not fully completed.
6. Check the name of the leasing company, and where relevant its parent company, on the page of the lease agreement which you sign and whether this company is a member of the FLA.
7. Make sure you understand and agree with all terms and conditions of the business finance agreement and, if you are unsure, seek advice.
8. Make sure you understand the costs involved and whether the business finance agreement allows for any automatic increases in charges.
9. Check the period of hire and any notice period required for its termination and the settlement terms to be applied on early termination.
10. Check whether the business finance agreement includes the supply of services and whether this will continue after any minimum or initial period of hire. If you are entering into a separate contract for the provision of service you should check its terms carefully.
11. If any amendments are made to your contract or a further contract is required to replace an existing agreement, do not sign it until you have made the same checks as you did for the original agreement.
12. If a new business finance agreement includes an element of refinancing from a previous agreement with a different provider, check that the settlement figure provided by the former provider matches the refinancing figure used by the new provider.