MEDIA RELEASE:

DFSA launches Crowdfunding Framework

Dubai, UAE, 01 August 2017: The Dubai Financial Services Authority (DFSA) has today launched its regulatory framework for loan and investment-based crowdfunding platforms, the first such framework in the GCC countries. The regime forms part of the DFSA’s regulatory roadmap to create an innovation-friendly ecosystem, in line with the UAE Government’s National Innovation Strategy.

The DFSA crowdfunding regulations have the ability to catalyse growth in the financial technology (FinTech) industry in the UAE and the region, by targeting the specific requirements of crowdfunding platforms. The regulations ensure clear governance for FinTech businesses and provide appropriate protection for their customers. They also formalise the DFSA’s approach to regulating crowdfunding platforms which had operated through interim arrangements since 2016.

The introduction of the regulation comes as crowdfunding is becoming an increasingly important route for small and medium sized enterprises (SMEs) to access financing. Global loan-based crowdfunding is forecast to reach more than USD 300 billion and global equity-based crowdfunding more than USD 93 billion by 2020¹.

SMEs are significant contributors to the UAE economy. In 2014, they made up around 85% of businesses in the UAE, contributing to nearly 60% to the UAE GDP and employing 60-65% of the UAE work force. In Dubai, SMEs represent nearly 95% of all establishments in the Emirate accounting for 42% of the workforce and contributing around 40% to the total value of Dubai’s economy.

Data provided by the Khalifa Fund shows that approximately 50-70% of SMEs have had their applications for funding from conventional banks rejected and loans to SMEs account

¹ Based on CFX Alternative Investing Crowdfunding Statistics from 2015.
for just 4% of outstanding bank credit in the UAE, significantly below the MENA average of 9.3%. Conventional lenders are sometimes unwilling or unable to support SMEs given their often-limited asset pool or lack of a proven record of company operations. This makes it difficult for SMEs to do business; when they do get financing it can be expensive or with inflexible terms.

The UAE government has an ambition to enhance the contribution and performance of the SME sector. It has taken a major role in establishing initiatives and programmes to help with sources of funding for SMEs. Initiatives include the Mohammed Bin Rashid Establishment for SME Development and the Khalifa Fund. Given the significant role that SMEs play in the UAE economy, crowdfunding is expected to grow further in importance in the UAE as entrepreneurs seek alternative sources of funding.

Ian Johnston, Chief Executive at the DFSA, said: “We are pleased to be the first in the GCC region to formalise a tailored regime for loan and investment crowdfunding platforms, which represent an increasingly important source of financing for the SME sector. By creating a clear set of rules for operators, we hope to encourage the sustainable development of this industry and is part of our contribution to the UAE Government strategy to develop the SME sector.”

The DFSA’s crowdfunding framework follows the launch of its Innovation Testing Licence in May. That restricted financial services licence allows qualifying FinTech firms to develop and test innovative concepts from within the Dubai International Financial Centre (DIFC), without being subject to all the regulatory requirements that normally apply to regulated firms.

The DFSA’s innovation strategy is aligned with the National Innovation Strategy set out by UAE Vice President, Prime Minister and Ruler of Dubai, His Highness Sheikh Mohammed Bin Rashid Al Maktoum, to create an innovation-friendly ecosystem. It also follows the launch of the FinTech Hive at DIFC, which will bring together the next generation of leaders and entrepreneurs to compete and address the growing needs of the region's financial services industry, using innovative technology solutions. It intends to
catalyse growth and efficiency in a variety of areas including trade finance, alternative finance and Shari’ah-based services.

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Editor’s notes:

The DFSA is the independent regulator of financial services conducted in or from the Dubai International Financial Centre (DIFC), a purpose-built financial free-zone in Dubai. The DFSA’s regulatory mandate covers asset management, banking and credit services, securities, collective investment funds, custody and trust services, commodities futures trading, Islamic finance, insurance, an international equities exchange and an international commodities derivatives exchange. In addition to regulating financial and ancillary services, the DFSA is responsible for supervising and enforcing Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) requirements applicable in the DIFC. The DFSA has also accepted a delegation of powers from the DIFC Registrar of Companies (RoC) to investigate the affairs of DIFC companies and partnerships.

Ian Johnston was appointed as Chief Executive of the DFSA in June 2012.  Mr Johnston joined the DFSA in November 2006, as a Managing Director, to head the Policy and Legal Services Division.

Mr Johnston was admitted to practice Law in Australia in the early 1980s and has spent most of his career in the private sector. He held a number of senior positions within the financial sector and was CEO of one of Australia’s major Trustee Companies. During that time, Mr Johnston played a leading role in the Trustee industry and served on the National Council of the Trustee Corporations Association.

In 1999, Mr Johnston joined the Australian Securities and Investments Commission where he held the position of Executive Director, Financial Services Regulation, and spent several terms as an acting Commissioner. In 2005, Mr Johnston took up a position with the Hong Kong Securities and Futures Commission as a Special Advisor.

Mr Johnston is a past Chairman of the Joint Forum, which comprises representatives of the major international regulatory standard-setters (IOSCO, IAIS and the Basel Committee).  In November 2013, he was elected to the Steering Group of IOSCO’s Growth and Emerging Markets Committee.

He is also a member of the Financial Stability and Technical Committee (FSTC) of the IAIS, the
global standard-setting body for insurance regulation, and was a member of the Board of Directors of the Financial Planning Standards Board (from Jan 2011 – Mar 2016).