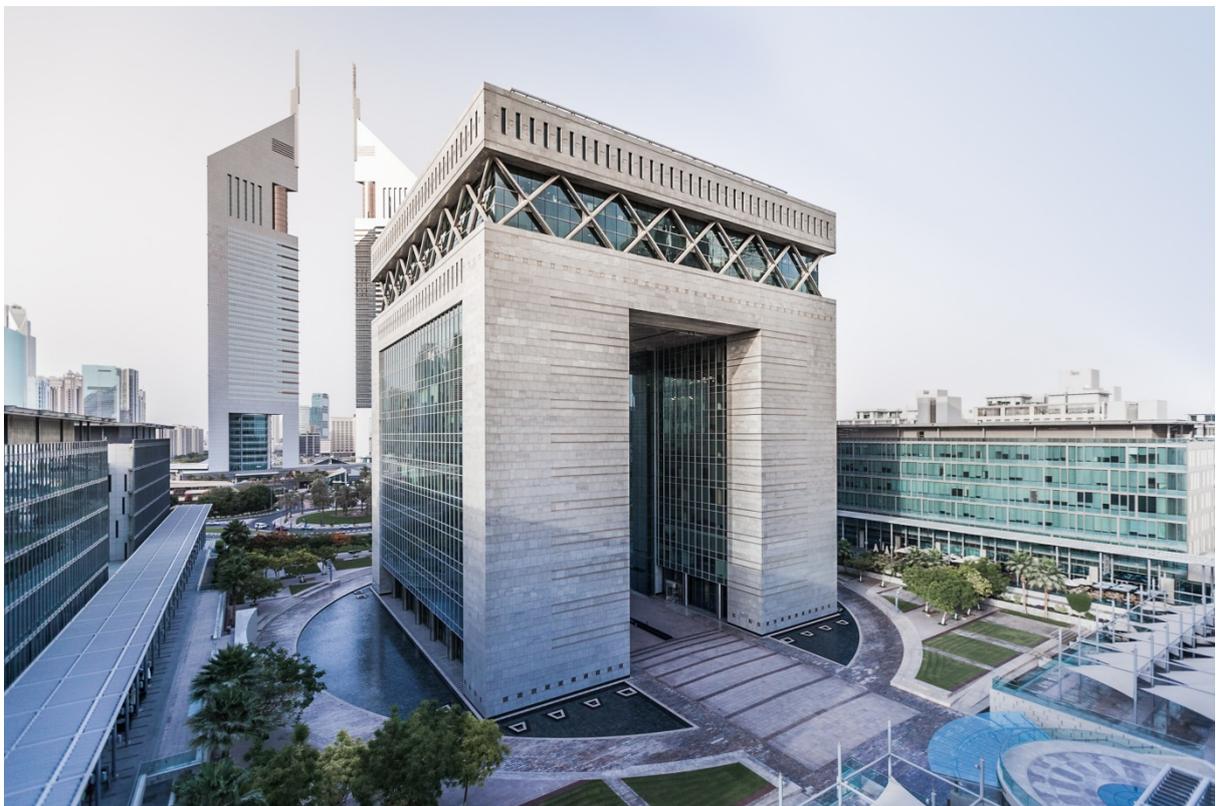


CONSULTATION PAPER

CP111



CROWDFUNDING: SME FINANCING THROUGH INVESTING

13 February 2017

CONTENTS

Preface	3
1. Introduction.....	5
2. Proposals.....	8
2.1. Application and licensing stage	9
2.2 Prudential requirements.....	15
2.3 General requirements	17
2.4 Conduct of Business requirements.....	19
2.5 Anti-money laundering requirements.....	34
2.6 Fees	34
Annex 1: Comments Table	35
Appendix 1: Proposed Amendments to the GEN Module;	
Appendix 2: Proposed Amendments to the COB Module;	
Appendix 3: Proposed Amendments to the GLO Module;	
Appendix 4: Proposed Amendments to the PIB Module;	
Appendix 5: Proposed Amendments to the FER Module;	
Appendix 6: Proposed Amendments to the MKT Module; and	
Appendix 7: Proposed Amendments to the Code of Market Conduct.	

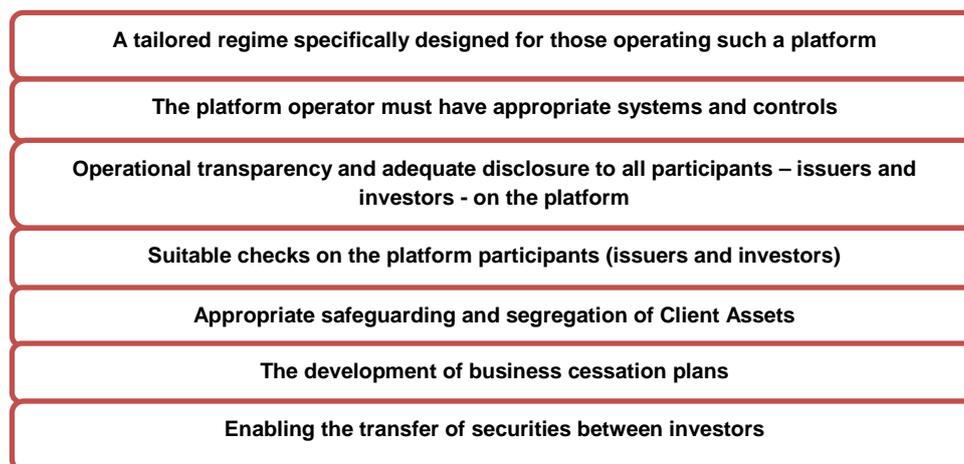
Preface

In 2016, the DFSA announced its preparedness to deal with the evolving world of financial technology, or FinTech. Since then, the DFSA has been dealing with, and discussing opportunities with, a number of interested parties in the FinTech area. Some of these discussions have been in the area of crowdfunding.

Crowdfunding is a way in which people, organisations and businesses (including business start-ups) can raise money through online portals (crowdfunding platforms) to finance or re-finance their activities and enterprises.

In January 2017, the DFSA issued a Consultation Paper (CP) to regulate the activity of Operating a loan-based Crowdfunding Platform (CP109). As part of the DFSA's work in this area, we are proposing to develop a framework for firms intending to operate an investment-based crowdfunding platform.

Our proposal is an extension of the proposals in CP109, which covers what we believe to be the regulatory fundamentals for Crowdfunding operators. In addition, it deals with specific risks for investment-based Crowdfunding Platforms mainly in the areas of:



Who is this CP aimed at?

This Consultation Paper will be of interest to:

- Persons who intend to set up an investment-based crowdfunding platform in the DIFC;
- Authorised Firms providing Financial Services in the DIFC;
- Persons providing legal, accounting, audit, oversight of compliance services in the DIFC or who wish to provide such services; and
- Potential investors.

What are the next steps?

The DFSA invites interested parties to provide their views on the issues outlined in the Consultation Paper, using the Comments Table provided, to consultation@dfsa.ae. Please mention the Consultation Paper number (111) in the subject line.

The deadline for providing comments on this consultation is **15 March 2017**.

Once we receive your comments, we shall consider if any further refinements are required to these proposals. We shall then proceed to make the relevant changes to the DFSA's Rulebook. You should not act on these proposals until the relevant changes to the DFSA Rulebook are made. We shall issue a notice on our website telling you when this happens.

1. Introduction

In January 2017, the DFSA issued a Consultation Paper (CP) proposing to regulate the activity of Operating a loan-based Crowdfunding Platform (CP109). We are proposing to develop a framework applicable to firms operating Investment-based Crowdfunding Platforms in or from the DIFC. Crowdfunding is becoming more established in the United Arab Emirates (UAE) and can be of central importance in respect of Small and Medium Enterprise (SME) growth (and the growth of larger businesses) and the development of the wider UAE economy.

What is crowdfunding?

Crowdfunding is a relatively simple concept. It is a means to raise funding for a venture or project from a wide range of people (the 'crowd'). This usually occurs through internet platforms specialising in one or other type of crowdfunding (see below). In addition to the crowd, the other two players in any crowdfunding situation are the operator of the platform and the person/company with the idea promoting the venture in which investors will be invited to invest.

The crowd is made up of natural or legal persons, meaning that lay persons, professionals or institutional investors can access the platform. That being said, the pool of funds is usually made up of individual contributions, which can be relatively small. The growth of this market accelerated in the wake of the 2008 financial crisis when access to capital from banks became more difficult.

Types of crowdfunding

While there are many crowdfunding models, which have very different purposes and business models, there are essentially four types of crowdfunding:

- (a) Donation;
- (b) Reward/royalty;
- (c) Loan-based; and
- (d) Investment-based (such as equity-based).

There is an emerging consensus, globally, that only loan-based and investment-based crowdfunding need to be regulated by financial services regulators, as the other types of crowdfunding do not, typically, involve any activity that would be a 'Financial Service'.¹

For the purposes of this paper we are only focusing on developing a framework for investment-based crowdfunding platforms.

¹ Nonetheless, attention needs to be paid to AML/CTF risks arising from these types of crowdfunding.

Why is regulation needed?

It is our view that regulation is needed in this area because of the risks posed to Investors and, in particular, to Retail Investors. Many of the risks posed by crowdfunding platforms are similar to the risks presented by other lending or investment opportunities, but some are specific to crowdfunding. We have set out the main risks under CP109. However, we have also identified risks specific to investment-based crowdfunding, which we discuss in the following table:

Risk	Explanation of the risk
Investor understanding, inexperience and conduct	Investors need to be able to understand the risks to which they will be exposed, and the different approaches followed by different platforms, before making a decision to transact. In most cases there will be a significant degree of information asymmetry in place with the consumer knowing very little about the investment on offer.
High risk of loss of equity/capital	The main risk is that the investors may lose some or all of their capital as a result of the Issuer's failure. In addition, investors may face significant risk of dilution of equity holding through further rounds of capital raising. These risks will vary and mitigating them will depend on the level of due diligence carried out by the platforms and the investors, and also the other statutory safeguards available in the jurisdiction.
Locked-in investment and lack of immediate return	Given the nature of the investment (at an early stage of the business growth) it is considered as a form of long term investment. Once an investment is made, an investor is unlikely to see a return at least for a number of years since start-ups rarely pay dividends while they are in their growth stage.
Lack of liquidity	<p>Unlisted private companies present a risk in that the investment in them is illiquid when compared to other investments (i.e. it is more difficult to sell or exchange shares or other securities without suffering a loss on their original purchase value).</p> <p>In the absence of a secondary market for trading in the securities, investors face the risk of not being able to sell their securities or having to sell them at a significant discount.</p>
Lack of information	Investors in these type of investments will receive significantly less information about their investment compared to more traditional investment products.

Lack of a clear exit route	Investors in unlisted private companies may normally expect to sell or realise their investment when, and if, the company floats on a publicly-listed stock exchange, or is bought by another company, which often takes a number of years from initial investment.
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Potential for fraud	Fraud is a key risk facing investors looking to invest on a crowdfunding platform, for example, an investor's personal details may be stolen or misused or an investor may unwittingly fund a scam pitch.
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Money laundering and terrorist financing risks	Money laundering and terrorist financing are also a risk and may manifest in several ways. For example, an Issuer may be colluding with investors to exchange money for securities in a nefarious enterprise under the facade of a business transaction.
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A similar process could be used to funnel money out of the country to fund terrorism. If fifty fake investors crowdfund a sham company that purports to do various activities abroad, the investors could transfer funds to the company by purchasing (worthless) equity, and the company could transfer the money abroad under the guise of its business.

Issues for consideration

Q1: Do you think there are any other risks relating to crowdfunding that we should seek to consider and address?

2. Proposals

In order to address the highlighted risks, we are proposing to expand the proposed regulatory regime set out in CP109 to encompass the operations of an investment-based crowdfunding platform.

As is our normal practice, we have looked at what other jurisdictions have done in respect of investment-based crowdfunding. International standard setters have started to comment on the regulation of investment-based crowdfunding platforms, but are yet to come to any consensus on how they should be regulated at an international level. Instead, we have looked to jurisdictions that have developed regulation applicable to investment-based crowdfunding platforms: the United Kingdom (UK), New Zealand (NZ), Isle of Man (IOM), Singapore, and the United States, in order to understand what they have proposed and the rationale behind their regulations.

In the remainder of this paper, defined terms are identified by the capitalisation of the initial letter of a word or of each word in a phrase and are defined in the Glossary Module (GLO) of the DFSA Rulebook. Unless the context otherwise requires, where capitalisation of the initial letter is not used, the expression has its natural meaning.

All references to Rules are references to proposed Rules that can be found in Appendices 1-7.

2.1. Application and licensing stage

Creating a new Financial Services activity

**Please see
draft Rule
GEN2.29.1**

Investment-based crowdfunding activities could fit into some of the DFSA's existing Financial Services; however, we believe that it is best to establish a new Financial Service that directly covers the activities carried out by Crowdfunding Platforms. As a result, we are proposing to establish a new Financial Service "Operating a Crowdfunding Platform" which will cover both operating a "Loan-based Crowdfunding Platform" and an "Investment-based Crowdfunding Platform". This is in line with what we have observed in a number of assessed jurisdictions.

We have set out in CP109 the proposed definition of a "Loan-based Crowdfunding Platform". As such, the activity of operating an "Investment-based Crowdfunding Platform" will involve:

- (a) the operation of an electronic platform that facilitates the bringing together of Persons who wish to obtain funding for a business or venture (Issuers) and persons who are willing to provide funding (investors), and results in the investor making an Investment with the Issuer; and
- (b) the operator performing administrative functions in relation to any Investment that results from operating the electronic platform.

In addition to these core activities, we are also proposing to allow an operator of an investment-based crowdfunding platform to provide a facility that assists investors using the platform to dispose of their Investment.

By virtue of creating this new Financial Service, other defined Financial Services in the DFSA regime will not be applicable to these activities. These include, but are not limited to:

- (a) Arranging deals in investments – GEN 2.9; and
- (b) Operating an alternative trading system (ATS) – GEN 2.22.

Provision of advice and managing assets and managing a Collective Investment Scheme

**Please see
draft Rule
GEN2.2.10D**

We have set out in CP109 that a Crowdfunding Operator will not be permitted to provide advice or have the discretion to manage assets. We are proposing to apply the same restriction to an Investment-based Crowdfunding Platform.

In addition, we will not permit the operator of an investment-based

crowdfunding platform to manage a Collective Investment Fund. As such, platform operators will have to consider carefully their business models to avoid unintentionally giving advice or providing a discretionary portfolio management service or managing Collective Investment Funds as a part of their activities.

Issues for consideration

- Q2:** Do you agree with our proposal to have a single Financial Service Activity of Operating a Crowdfunding Platform that covers investment-based crowdfunding as well as loan-based crowdfunding? If not, why?
- Q3:** Do you agree with the description of the activity for investment-based crowdfunding and the accompanying terminology? If not, why?
- Q4:** Do you agree with our proposal not to permit the provision of advice, discretionary portfolio management services and managing a CIF by a person providing investment-based crowdfunding services? If not, why?

Offers of Securities to the Public

Please see draft Rule MKT2.3.1(m) As Investment-based Crowdfunding will (unlike a crowdfunding lending platform) involve the issue of a Security (normally shares), an Investment-based Crowdfunding Platform may result in an Issuer making an Offer of Securities to the Public as defined in Article 12 of the Markets Law. As a result, an Issuer would have to consider the Prospectus regime in the Markets Law and Rules.

For start-ups and small and medium-sized companies, complying with the prospectus requirements for a small fundraising exercise may not be viable given the costs and resources involved in preparing a Prospectus. In addition, based on our knowledge of Offers of Securities made via an Investment-based Crowdfunding Platform, some smaller offers on a platform may fall within the criterion for “Exempt Offers”. However, the current parameters of the Exempt Offers prescribed under the DFSA Markets Module (MKT) Rule 2.3.1 do not adequately meet the nature of the offers of Issuers on Crowdfunding Platforms.

Therefore, we are proposing to create a new category of Exempt Offers available exclusively to Issuers that make an Offer of Securities through an Investment-based Crowdfunding Platform and that is accessible only to investors who are Clients of that Crowdfunding

Operator.

In addition, we are proposing to limit the scope and reach of this type of Exempt Offer by putting in place the following conditions:

- a) imposing a limit of USD 5 million, or an equivalent amount in another currency, to the amount of funds to be raised by an Issuer on a platform over a period of 12 months;
- b) prohibiting any general advertising, in any media platforms, of the Offer; and
- c) imposing a number of additional disclosure requirements.

Issues for consideration

Q5: Do you agree with our proposal to create a new category of Exempt Offers for Issuers that make an Offer of Securities through an Investment-based Crowdfunding platform? If not, what alternative would you suggest, and why?

Q6: Do you agree with our proposal to impose a limit in the new category of Exempt Offers to Offers of Securities through an Investment-based Crowdfunding platform that do not exceed to USD 5 million, over a period of 12-months? If not, why?

Application of Market Abuse regime

Please see draft Code of Market Conduct.

The Markets Law sets out provisions prohibiting market abuse in relation to Investments. Again, as an Investment-based Crowdfunding Platform involves the issue of securities, such as shares, the provisions could potentially apply to conduct that occurs in relation to those securities. Further, it should be noted that the DFSA's regime applies to a broad range of Investments, including Investments that are not admitted to trading on an exchange.

In January 2015, the DFSA introduced a Code of Market Conduct which provides Guidance on the Market Abuse provisions in the Markets Law. As those provisions could apply to Investment-based Crowdfunding, the DFSA proposes to add some further guidance in the Code of Market Conduct giving some examples of conduct that may constitute market abuse for Crowdfunding operators including fraud, and dissemination of false or misleading information.

Issues for consideration

Q7: Do you think there are other areas in relation to the Code of Market Conduct, relating to Investment-based crowdfunding platforms, that may constitute market abuse that we should seek to consider and address?

Application and interpretation

Under CP109, we have introduced new terms (detailed in the Conduct of Business Module (COB) and Glossary Module (GLO)) relevant to an Authorised Firm operating a loan-based crowdfunding platform. We are proposing to expand the definitions to include terms relevant to operating an investment-based crowdfunding platform. These include:

Commitment period:	The period specified by the Crowdfunding Operator during which investors may commit money to a particular Issuer.
Cooling-off period:	The period when an investor may withdraw their commitment to provide funding.
Investor:	An investor or potential investor using an Investment-based Crowdfunding Platform.

Authorisation process

Similar to the proposal under CP109: SME Financing through Lending, it is expected that the normal authorisation process, as set down in GEN 7, would apply to the authorisation and licensing of those operating an Investment-based Crowdfunding Platform. Some additional information may need to be sought during this process, for example, asking whether the platform has a website that is either up and running or at a suitably advanced stage; how the website would operate if a licence is granted and an explanation of the Business Cessation Plan. Therefore, we do not believe this requires further Rules in GEN 7.

We expect that most applications to operate an investment-based crowdfunding platform will be lodged by an existing Authorised Firm or a new firm applying to be authorised. However, we invite views on whether an Authorised Market Institution (AMI) should be able to carry out the activity of operating an Investment-based Crowdfunding Platform. If so, what terms should they operate on?

For example, to seek to manage potential conflicts of interest between the AMI's core activities and the platform, should we require a

separate subsidiary to be established by an AMI to operate an investment-based crowdfunding platform?

If the platform intends to provide services to Retail Clients, a Retail endorsement under GEN 2.2.8 will be required, and if it is intended to hold or control Client Assets then a Client Assets endorsement under GEN 2.2.10A will be required.

If a platform wishes to hold itself, or aspects of its business, out as being Shari'ah compliant, it will need to comply with the relevant Islamic Finance Rules (IFR) and will need to obtain an Islamic endorsement on its Licence. However, we are aware that the standard Shari'ah governance arrangements required in IFR, specifically relating to the appointment of a Shari'ah Supervisory Board, could be problematic, for example due to the cost of appointing a Board, for operators of investment-based crowdfunding platforms. We would like to hear from market participants if there are any suggestions for alternative measures, for example, using a screening methodology that we allow as an alternative for Collective Investment Funds under IFR 6.2.1(3), and how this could be applied to crowdfunding operations.

*Please see
draft Rule
COB 11.3.4*

Lastly, if a platform wishes to carry on an unregulated crowdfunding activity, for example, running a reward or donation-based platform, it must be made very clear to potential and current Clients of the platform what parts of the platform are and are not regulated. This could be achieved, for example, by setting up a separate unlicensed company, a separate platform (website) or by very clear disclosure on the current platform. We are proposing to include Guidance in order to provide Firms with an example of the various methods that can be used to meet this requirement.

Issues for consideration

- Q8:** Should an AMI be able to obtain a licence to carry out the activity of operating an Investment-based Crowdfunding Platform?
- Q9:** If an AMI was to obtain a licence to carry out the activity of operating an Investment-based Crowdfunding Platform, on what terms should it operate?
- Q10:** Do you agree that an investment crowdfunding platform wishing to hold out its services as being Shari'ah compliant must comply with IFR rules? If not, why not? What alternative measures for oversight and review could be appropriate instead of the appointment of a Shari'ah Supervisory Board?

Q11: Do you agree that a regulated investment-based crowdfunding platform wishing to carry out other unregulated crowdfunding activities (reward or donation) must make it clear to its customers what activities are regulated and not regulated? If not, why?

2.2 Prudential requirements

Prudential categories

Please see draft Rule PIB1.3.6 The DFSA prudential requirements are set out in either the Prudential – Investment, Insurance, Intermediation and Banking Module (PIB) or in the Prudential – Insurance Business Module (PIN) and are applicable, as specified, to all Authorised Firms.² These requirements are important because they are set to reflect the financial and business risks posed by firms and they aim to minimise the risk of harm to customers by ensuring that firms behave prudently in monitoring and managing business and financial risks.

We are proposing to place those operating an investment-based crowdfunding platform in PIB Category 4, as the activities of crowdfunding platforms is similar to the activity of Arranging deals in Investments and present similar prudential risks. This would mean, for example, as with any other Category 4 Firm that Capital Requirements (PIB 3.5) and the reporting requirements (PIB 2.3), would be applicable.

Based on our understanding of crowdfunding business models, we note that in some instances, crowdfunding operators may opt to hold or control Client Money. The DFSA's Prudential regime currently prohibits a Category 4 Firm from such an activity.

Please see draft Rule PIB3.6.2 If a crowdfunding operator's business model results in it holding or controlling Client Assets, the DFSA is proposing to:

- 1) exempt a crowdfunding operator from this restriction; and
- 2) increase the Base Capital Requirement for an Investment-based crowdfunding Platform from US \$10,000 to US \$140,000.

We are not proposing any change to the Expenditure Based Capital Minimum requirement (i.e. which is 18/52 for an Authorised Firm that holds or control Client Assets and 6/52 if the Authorised Firm does not hold or control Client Assets.).

Issues for consideration

Q12: Do you agree with our proposal to place those Operating a Crowdfunding Platform into a PIB Category 4? If not, what alternative PIB Category could be applied, and why?

Q13: Do you agree with our proposal to exempt crowdfunding operators who opt to hold or control Client Money from the current

² This excludes a Representative Office and a Credit Rating Agency.

restriction under COB6.12.12? If not, why?

Q14: Do you agree with our proposal to apply a higher Base Capital Requirement of USD140,000 to those Operating a Crowdfunding Platform that hold or control Client Assets? If not, what alternative Base Capital Requirement could be applied, and why?

Legal form

**Please see
draft Rule
PIB3.2.4**

The DFSA currently allows Firms to set up as a start-up, Subsidiary of a non-DIFC Firm or a Branch of a non-DIFC Firm. If an Authorised Firm is a branch, then under PIB3.2.4, it is not normally required to hold capital in the DIFC. Instead, we rely on the home state regulator and the prudential requirements they have set.

Given the current status of the regulation of Crowdfunding, we proposed under CP109 that all those operating a loan-based crowdfunding platform in the DIFC, including those establishing a Branch, must hold capital according to the Category 4 Capital Requirements in PIB Chapter 3.5. We are proposing to apply the same proposal to those operating an investment-based crowdfunding platform in the DIFC

In addition, we are considering whether we should require a crowdfunding operator to set-up as a subsidiary in the DIFC.

Issues for consideration

Q15: Do you agree with our proposal to require Branches to hold capital as per the Category 4 Capital Requirements? If not, what alternatives could be suggested?

Q16: Do you agree with our alternative proposal to require a crowdfunding operator to set up as a Subsidiary in the DIFC? If not, what alternatives could be suggested?

Professional Indemnity Insurance (PII)

**Please see
draft Rule
PIB6.12.3**

PIB 6.12 requires certain Authorised Firms to have PII cover in place in order to protect a Firm from claims of negligence for providing inadequate advice or service, for example, to a Client.

As set out under CP109, we are aware that this type of insurance policy is not currently available for those operating crowdfunding platforms in the UAE. Given this lack of cover, we proposed that those operating a loan-based Crowdfunding Platform:

- a) take reasonable steps to obtain PII cover but, in the event that cover is not available, are exempted from having to obtain cover; and
- b) when cover becomes available, obtain that cover immediately and inform the DFSA that this has been done.

We are proposing to apply the same proposal to those operating an investment-based crowdfunding platform in the DIFC.

Issues for consideration

Q17: Do you agree with our proposals to deal with PII cover for such businesses? If not, why?

2.3 General requirements

General application

Similar to our proposal under CP109, we propose to apply all the relevant provisions in the GEN Module to those carrying out the activity of operating an Investment-based Crowdfunding Platform. In practice, this will mean that Rules relating to Financial Promotions, Core Principles, Management, Systems & Controls and Authorisations, for example, will be directly applicable to all those operating an Investment-based Crowdfunding Platform.

We have produced a short commentary below to explain how some of the requirements in the GEN Module will be applicable to those operating an Investment-based Crowdfunding Platform.

This commentary is intended as a guide. It is not exhaustive.

Core Principles – GEN 4

GEN 4 sets out twelve principles for Authorised Firms, which are a general statement of the DFSA's fundamental regulatory requirements, and six principles for Authorised Individuals, which set overarching standards for the conduct of such individuals. Rules in other parts of the DFSA Rulebook build upon these requirements. Those operating an investment-based crowdfunding platform would be required to abide by all of the Principles for Authorised Firms and Authorised Individuals.

Mandatory Appointments – GEN 7

The provisions in GEN 7.5 regarding the mandatory appointments of Authorised Individuals would apply to those carrying out the activity of operating an Investment-based Crowdfunding Platform. This means that the DFSA would require the appointment of a Senior Executive

Officer, Finance Officer, Compliance Officer and Money Laundering Reporting Officer (see the section on the application of the AML requirements). It is worth noting that we offer some flexibility in respect of these mandatory appointments, for example, we allow a Firm to outsource some of these roles and/or allow one individual to perform more than one Authorised Function as per the GEN 7.5 Guidance.

Investments – GEN App 2

The provisions in GEN App 2 set out the DFSA's definition of Investments. Given that Investment-based crowdfunding essentially involves making an offer to invest in a company, such an offer would generally be made by way of Investment. We are proposing to apply the definition of Investment to all those operating an Investment-based Crowdfunding Platform.

In relation to investment-based crowdfunding – the investments that are generally being offered through a crowdfunding platform are intended to be limited to Shares (common or non-convertible preference shares) or Debentures³. Therefore, we are proposing to limit the Securities allowed to be offered on an Investment-based crowdfunding platform to Shares and Debentures. This is for two reasons. First, it is consistent with existing business models and second, we do not believe such a platform should be issuing instruments of a complex or unusual nature, given the broad profile of investors on a platform.

Issues for consideration

- Q18:** Do you agree with our proposal to require those carrying out the activity of operating an Investment-based Crowdfunding Platform to comply with GEN requirements? If not, why and what alternatives would you propose?
- Q19:** Do you agree with our proposal to limit the investments allowed to be offered on an investment-based crowdfunding platform to Shares and Debentures? If not, why?

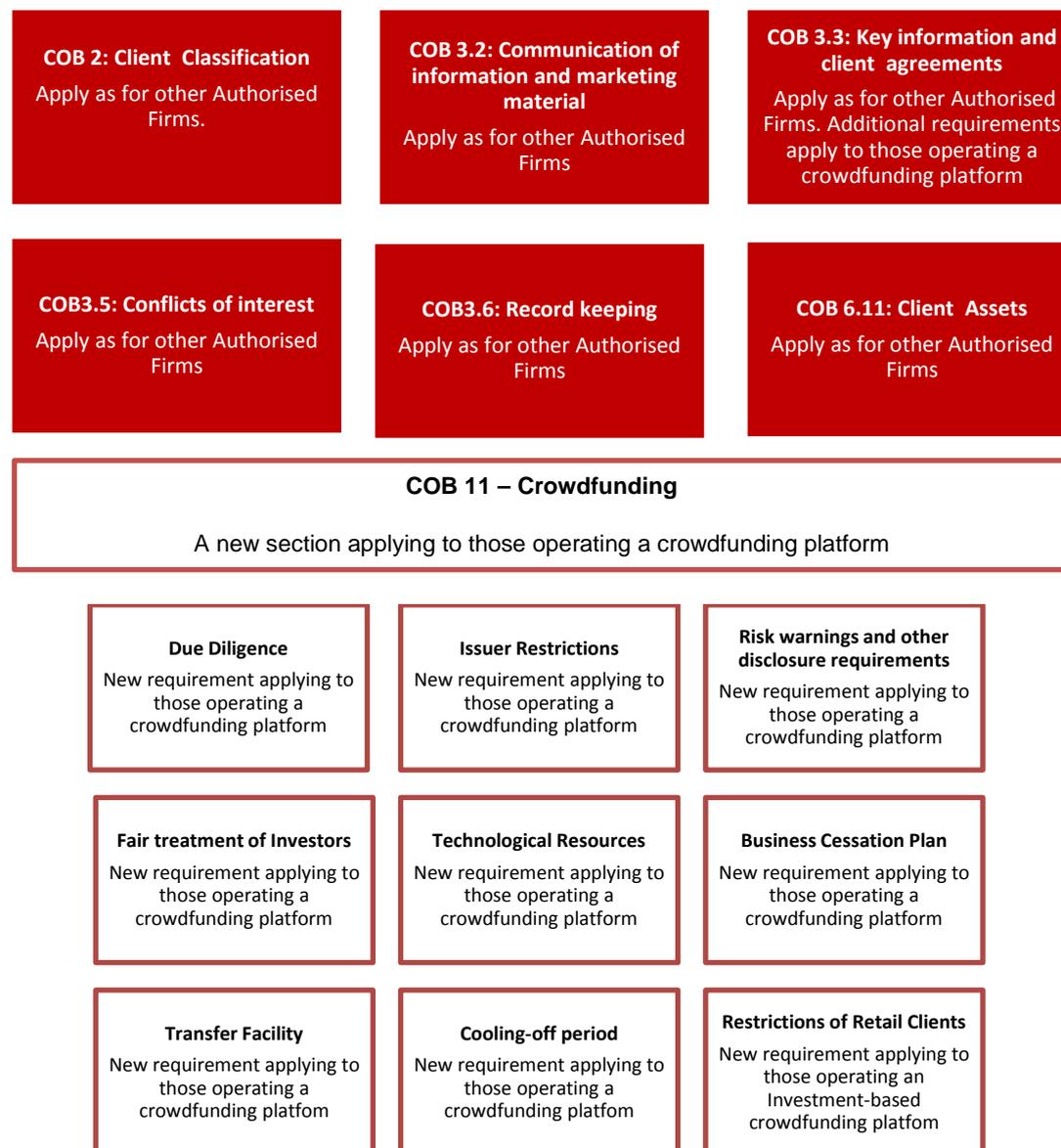
³ Certain Islamic products ('Sukuk') can also fall within the definition of a debenture.

2.4 Conduct of Business requirements

Conduct of Business application

We propose that the following existing and new conduct of business rules should apply to those carrying out the activity of operating a Loan-based Crowdfunding Platform.

These requirements are illustrated below:



Issues for consideration

Q20: Do you agree with our proposal to expand the proposed new chapter in COB to include the activity of operating an Investment-based Crowdfunding Platform? If not, why?

Client Classification

**Please see
draft Rule COB
2.3.6A**

The Rules relating to Client Classification are set out in COB 2, where an Authorised Firm must, before carrying on a financial service with or for a Person, classify that Person as a Retail Client, Professional Client or Market Counterparty. We intend to apply these classification requirements to crowdfunding services offered to Investors. However, in respect of crowdfunding services offered to an Issuer, we are proposing to modify these requirements and allow the platform automatically to treat the Issuer as a service-based Professional Client under COB 2.3.6A.

We believe that this proposal is proportionate and reflects the nature of the service being provided to the Issuer. It is also consistent with the approach we have taken to the provision of other similar Financial Services, such as advisory and arranging activities relating to corporate structuring and financing, where we have also automatically deemed Clients of these services as service-based Professional Clients.

Issues for consideration

Q21: Do you agree with our proposal to allow platform operators to treat Issuers as 'service-based' Professional Clients under COB 2.3? If not, why?

Communication of information and marketing material

**Please see
draft Rule COB
11.3.8**

The Rules relating to communication of information and marketing material are set out in COB 3.2. However, in the context of operating an investment-based crowdfunding platform, we believe there is a need to limit crowdfunding platforms from marketing any information on specific offers outside the platform. Therefore, we are proposing to add a new section in COB that restricts crowdfunding operators from marketing any information on specific offers unless it is made on the platform. This prohibition will be included in the new COB Chapter 11 on Crowdfunding.

Issues for consideration

Q22: Do you agree with our proposal to restrict platform operators from marketing any information on specific offers unless it is made on the platform? If not, why?

Risk warnings and other disclosure requirements

**Please see
draft Rules:
COB 11.3.1
COB 11.3.2
COB 11.3.3
COB 11.3.7
COB 11.3.9**

Under CP109, we proposed additional disclosures specific for platforms operators in addition to the requirements set under COB 3.2 and 3.3.

We propose to expand these additional disclosure requirements and apply them to those operating an Investment-based Crowdfunding Platform.

We acknowledge that it is important to get the balance right between how much we regulate and how much we leave up to the platform to decide. Therefore we would expect, at a minimum, platforms to disclose the information set out below to potential investors and issuers.

In relation to the general operation of a platform:

- details of how the platform works;
- details of fees, costs and other expenses that may be imposed on the Clients of the platform;
- eligibility criteria for investors (including any limits on amounts an individual investor may invest);
- eligibility criteria for Issuers;
- minimum and maximum amounts that an Issuer may raise on the platform (if applicable);
- Investor rights and restrictions (including how the platform will deal with cancellation rights, etc.);
- complaints rights of clients;
- what will happen if funds raised by an Issuer either fail to meet or exceed the target level sought;
- the platform's policy if there is a material change to a proposal or an Issuer's circumstances;
- financial interests of related parties of the platform and any potential/actual conflicts of interest;
- any facility provided to facilitate the transfer of Securities and any risks relating to the use of that facility;
- client money arrangements and safeguards;
- client investments arrangements and safeguards;
- IT security measures; and

- anti-money laundering protections.

Key risks of crowdfunding must be displayed prominently on the platform. For example:

- that the investor may lose all or part of their original investment;
- that Issuers may be new businesses, and as many new businesses fail, such an investment may be speculative in nature and carry high risks,
- that investors may not be able to sell their investment, either when they want or at all; and
- the process in the event of the failure of the platform or the Issuer.

In relation to the specific investment:

- due diligence undertaken on the Issuer and an explanation of the potential limits of that due diligence;
- the target level of funding sought and how overfunding (if any) will be dealt with;
- the process used to assess an Issuer (if applicable) and a clear explanation that this is not tantamount to giving advice; and
- the platform's policy in respect of material changes to a proposal and investors' rights if this is to happen.

In relation to the Issuer's information:

- the full name of the Issuer's company and relevant individuals and the position of each director and officer of the Body Corporate;
- the place of incorporation of the Issuer and the country in which each director, officer and controller is resident;
- a description of the Issuer's business;
- the most recent financial statements (or projections for start-ups);
- a detailed description of the proposal for which it is seeking funds and precisely how the proceeds of the crowdfunding will be dealt with;
- any project-specific risks;
- financial interests or related parties or professional investors (if applicable);
- investor rights and restrictions;
- liquidity and any specific restrictions in the shareholder agreement (including any details on how investments can be sold and

restrictions thereon, or whether there are ownership restrictions in the relevant jurisdiction);

- whether there is any additional non-investment reward/perk and, if so, what is available and on what terms; and
- any potential conflicts of interest.

As explained above, these would be **minimum disclosures** we would expect a platform to make to potential investors. As investment-based crowdfunding platforms can have different business models, we would not want this list to be exhaustive. Platform operators will have to consider what other disclosures are relevant in light of the nature and risks of their platforms.

We are proposing to leave it to the operator of a platform as to how they meet these disclosure requirements, with the provision that they are clearly explained and displayed on their website in order to provide the investor with a complete overview of the operations of the platform and the proposals on offer. Some platforms may choose to show this information on a Frequently Asked Questions page or others may have this information alongside each proposal.

Platform operators should also be mindful of, and have full regard to, the DFSA Principles for Authorised Firms, specifically Principle 1: Integrity; Principle 2: Due skill, care and diligence and Principle 6: Information and interests, when displaying this information.

Issues for consideration

Q23: Do you have any comments on our proposed approach to requiring risk warnings and other disclosures by those carrying out the activity of operating an Investment-based Crowdfunding Platform?

Key information and client agreements

Please see draft Rule COB APP A2.1.5 & COB APPA2.1.6

The Rules relating to Key Information and Client Agreements are set out in COB 3.3 with further detailed information requirements set out in COB App2.1.1 and 2.1.2. Under CP109, we proposed additional requirements under COB App2 between the platform and its Clients (borrower and lender).

In relation to investment-based crowdfunding, we are proposing to apply the same additional requirements on the platform and its Clients (Issuer and investor). The additional requirements would be as follows:

Client Agreement – investor:

- a) the acknowledgement of specific risks via a signed risk acknowledgement form for Retail Clients before they make an investment;
- b) details of how the platform will perform administrative functions relating to an investment such as the transfer of monies from the investor to the Issuer, as well as details of what the investor can expect the platform to do if an Issuer fails to make any payment that is due; and
- c) an explanation of what would happen in the event of the failure of a platform (in addition to this being clearly available on the platform website).

*Please also
see draft Rule
COB 11.3.8
COB 11.3.9
COB11.3.10*

Client Agreement – Issuer:

- a) a restriction on the Issuer from using any other crowdfunding platform for a proposal at the same time that proposal is open on a crowdfunding platform (this is to prevent different information being presented to potential investors on another site);
- b) a requirement that the Issuer does not advertise its proposal or solicit potential investors other than by referring to the proposal postings on the crowdfunding platform;
- c) a requirement to ensure that the Issuer and its respective directors and officers cannot lend or finance, or arrange lending or finance for an investor to purchase securities;
- d) a requirement that the proposal remains unaltered for the duration of the period for which funds are sought;
- e) a requirement to ensure that Issuers provide annual accounts to their investors whether or not the company legislation under which the issuer is incorporated requires this; and
- f) a requirement for the Issuer to provide advance notice of the following events:
 - (i) fundamental change in nature, or discontinuation, of business;
 - (ii) major reorganisation, amalgamation or merger;
 - (iii) take-over bid, Issuer bid or insider bid;
 - (iv) material change to Issuer's capital structure;
 - (v) significant acquisition or disposal of assets, property or joint venture; or
 - (vi) changes to board of directors.

Issues for consideration

Q24: Do you agree with our proposal to apply COB 3.3 relating to Key Information and Client Agreements? If not why?

Q25: Do you agree with our proposal to add further information requirements to COB App2 relating to Client Agreements? If not, why?

Risk Acknowledgement Form

**Please see
draft Rule
COB11.5.1**

In addition to applying additional requirements under COB 3.3 Key Information and Client Agreements and COB App2, we are proposing to introduce a risk acknowledgement form that an operator of an Investment-based Crowdfunding Platform is required to provide to Retail investors for each investment opportunity.

The risk acknowledgement form would acknowledge that the Retail Client understands the specific risks of the Investment and be provided before or at the same time that a Retail Client commits to provide funding to an Issuer.

Issues for consideration

Q26: Do you agree with our proposal to require an operator of an investment-based crowdfunding platform to require a Retail Client to sign a risk acknowledgement form before making an investment using the platform? If not, what alternatively would you suggest, and why?

Due diligence

**Please see
draft Rule
COB11.3.12**

Under CP109, we proposed a set of due diligence checks that operators of loan-based crowdfunding platforms should carry out on potential borrowers before allowing them access to the crowdfunding platform.

We are proposing to apply the same requirement to investment-based crowdfunding platforms. We believe these checks are very important because investors are unable to carry out individual checks on the Issuers.

In advance of hosting a proposal on an investment-based crowdfunding platform, we would expect the following checks, at a minimum, to be carried out on potential Issuers:

- a) the details of its incorporation and business registration, as well as the identity and place of domicile of each director, officer and

- controller of the Issuer;
- b) the fitness and propriety of those referenced in a), for example checking if there have been any director disqualifications or convictions for fraud/dishonesty;
 - c) the financial strength and past performance of the Issuer, and if the company is a start-up, its financial projections;
 - d) the valuation of the Issuer's business, its current borrowing levels and the source of any existing borrowing (if applicable);
 - e) the Issuer's business proposal;
 - f) the commitment of the Issuer to its business, for example, looking at the initial share capital and any flight risk exposure;
 - g) details of any funds raised via the platform or elsewhere; and
 - h) that the Issuer is complying with applicable laws in the jurisdiction in which it is incorporated.

We acknowledge that even with these checks no Issuer can be considered risk free and even apparently sound businesses may fail. It is important that, through the risk disclosure requirements (please see the disclosure requirements below for more detail), investors clearly understand this risk and fully appreciate what due diligence has been carried out and the limits of it.

Issues for consideration

Q27: Do you agree with the proposed minimum due diligence requirements to be applied to borrowers wishing to join a loan-based crowdfunding platform? If not, what alternatives would you propose?

Conflicts of Interest, fraud and other misconduct

Please see draft Rule COB11.3.13 The DFSA's approach to conflicts of interest is set out in COB 3.5 and outlines what is required in respect of their mitigation and disclosure to Clients. We are proposing to apply these requirements to those carrying out the activity of operating an Investment-based Crowdfunding Platform.

Under CP109, we proposed to restrict an officer or employee of a loan-based crowdfunding platform, or a family member of such a person, from borrowing or lending via the platform or having a financial interest in any borrower or lender.

We are proposing to apply the same restriction to investment-based crowdfunding platforms. We believe this measure is necessary in

order to prevent potential conflicts of interest, or an operator exploiting the use of privileged information it has, to obtain access to the best investment or to exit an investment.

However, we invite views on whether it is possible for a platform to put certain controls in place that would allow an operator or any connected person to that operator to address these conflicts of interest in an appropriate way.

We also invite views on whether the platform itself should be able to participate in securities administered by the platform. If so, what controls should be put in place to address any conflicts of interest associated with its participation? Alternatively, we invite views on whether a platform operator should be mandated to take a small (perhaps 2.5-5%) interest in each security administered via the platform as a mechanism for ensuring the interests of the platform and the investors are aligned.

Issues for consideration

Q28: Do you agree with our proposal to apply COB 3.5 relating to Conflicts of Interests and include a requirement for an operator to prohibit its staff from using that platform? If not, why?

Q29: What are your views on whether a platform operator should be able to participate in loans administered by the platform? What controls could be put in place to address conflicts of interest that could arise under such a proposal? What are your views on whether a platform operator should be mandated to take a small interest in each loan administered via the platform?

Client Money

***Please see
draft Rule
COB6.1.1 &
COB6.12.1***

We are proposing to apply the Client Money requirements set out in COB 6.11 and COB 6.12 (and associated provisions in App5) to those carrying out the activity of operating an Investment-based Crowdfunding Platform. This will, of course, depend on the business model of the platform, as there may be instances where the exemption in COB 6.12.1(e) is applicable, for example, if a platform only collects investment money once a proposal threshold is met and immediately transfers that money to the Issuer. However, we understand that most platforms operate by collecting the pledged money from the investors and holding that in an account (for a short period of time), before passing that money on to the Issuer.

We appreciate that some could see these requirements as burdensome and costly to comply with. We invite market participants to put forward views on these requirements in order for us to

understand if we need to make adjustments to our proposal.

Client Investments

**Please see
draft Rule
COB6.1.12**

We are proposing to apply the Client Investment requirements set out in COB 6.11, and COB 6.13 (and associated provisions in App6) to those carrying out the activity of operating an Investment-based Crowdfunding Platform. This will, of course, depend on the business model of the platform, and whether it is involved in holding or controlling the Investments on behalf of investors.

We appreciate that some could see these requirements as burdensome and costly to comply with. We invite market participants to put forward views on these requirements in order for us to understand if we need to make adjustments to our proposal.

Issues for consideration

Q30: Do you agree that those carrying out the activity of operating an Investment-based Crowdfunding Platform should be subject to our Client Money requirements if they hold or control Client Money? If not, why, and what adjustments or changes would you propose?

Q31: Do you agree that those carrying out the activity of operating an Investment-based Crowdfunding Platform should be subject to our Client Investments requirements if they hold or control Client Investments? If not, why, and what adjustments or changes would you propose?

Restrictions on retail investors

**Please see
draft Rule
COB11.5.3**

Regulators around the world have taken different approaches to limit the exposure of Retail Clients to Crowdfunding services. One of the most common methods used is imposing an investment limit to counteract investors' tendency to over-estimate the prospects of their investments. It also serves as an implicit risk warning and a safeguard against significant exposure to risky projects.

Based on our assessment of the current market size, we understand that imposing an investment limit may impede the growth of the sector by compromising an operator's ability to close a certain pitch. To illustrate, if an Issuer is looking to raise \$1,000,000 for a project, it is estimated that around 70% of the funds generally come from outside the Issuer's network. On that assumption, and assuming that the majority of the investors are Retail, the platform will require at least

140 investors to be able to close the pitch⁴.

Nevertheless, we believe there need to be some constraints regarding the amount Retail investors can invest on a platform given the nature of these Securities. Therefore, we are proposing to impose an aggregate limit of USD 50,000 per platform per calendar year for investors that are classified as Retail Clients in order to limit their exposure.

There would be an obligation on the operator of the platform to have in place systems and controls to ensure that these limits are adhered to and that Retail investors do not exceed these limits.

We appreciate that a Retail Client's risk exposure could be increased if they chose to invest through multiple other platforms. However, we believe these limits, combined with the other regulatory protections, provide a suitable balance of protection for Retail Clients.

We are not proposing any limits for investors who are classified as Professional Clients or Market Counterparties.

Issues for consideration

Q32: Do you agree with our proposal to set an aggregate limit on the amounts retail investors can invest through an investment-based crowdfunding platform? If not, why, and what changes would you propose?

Cooling-off Period

Please see draft Rule COB11.5.1 Under CP109, we proposed not to apply mandatory cancellation rights for lenders but rather leave it up to the platform to decide whether or not they will provide cancellation rights. If it is offered, then the operator is required to reflect that as part of its disclosure requirements.

However, taking into consideration the nature of these Investments offered on investment-based crowdfunding platforms, we are proposing to set a minimum Cooling-off Period that an Operator is required to give to investors without any penalty and without giving a reason. The proposed Cooling-off Period is *"a minimum 48 hour period from the time of initially agreeing to make the investment"*.

We invite market participants to put forward views on the proposed

⁴ Based on the assumption that we have imposed a \$5,000 limit per investment and that all investors have invested the maximum limit.

minimum Cooling-off Period in order for us to understand if we need to make adjustments to our proposal.

Issues for consideration

Q33: Do you agree with our proposal to set a minimum cooling-off period that an Operator is required to give to investors investing through an investment-based crowdfunding platform? If not, why?

Information forum

*Please see
draft Rule
COB11.3.14*

Under CP109, we proposed to allow loan-based crowdfunding platforms to establish an information forum (or something broadly similar).

We propose to allow an operator of a platform to establish and operate an information forum (or something broadly similar), on the basis that operators of that platform:

- a) monitor it to identify and address posts that are potentially misleading or fraudulent;
- b) are careful not to edit that forum to give a misleading picture of investor/potential investor views of an Issuer's proposal;
- c) provide access to (all) Clients of the platform;
- d) restrict the posting of comments to persons who are Clients of the platform;
- e) actively encourage investors to look at the information forum for any new and applicable information, while clearly stating that the platform has not carried out any due diligence on the information provided; and
- f) require those providing comments to clearly state if they are affiliated to the Issuer and/or the Issuer's company.

We propose to allow an investment-based crowdfunding platform to establish an information forum (or something broadly similar), on the same basis as set out above.

Issues for consideration

Q34: Do you agree with our proposal to allow those operating an investment-based platform to establish an information forum? If not, why?

Equal treatment of investors

Under CP109, we proposed Rules on the equal treatment of lenders.

**Please see
draft Rule
COB11.3.11 &
COB11.3.12**

We are proposing to apply the same Rules for investment-based crowdfunding platforms where:

- a) an operator of an investment-based crowdfunding platform must ensure that all investors on its site have access to the same information relating to an Issuer or the pitch; and
- b) if an operator of an investment-based crowdfunding platform provides any facility that provides some investors with the opportunity to invest money ahead of other investors, the operator must disclose prominently on its website that some investors may have had preferential access to better proposals.

In respect of equal access to information mentioned in (a), we appreciate that not all investors will in fact access this information, but regardless, they must have equal access to all information.

Issues for consideration

Q35: Do you agree with our proposals to develop requirements relating to the fair treatment of investors? If not, why, and what changes would you propose?

Technological resources

**Please see
draft Rule
COB 11.3.16**

Under CP109 the DFSA proposed to apply the measures from COB 9.5 on loan-based crowdfunding operators. As such the operator would need to ensure that:

- a) the IT systems in place are resilient and not prone to failure;
- b) business continuity arrangements are in place in the event that an IT system fails;
- c) the IT systems are protected from damage, tampering, misuse or unauthorised access; and
- d) there is integrity of data forming part of, or being processed through, the IT system.

In addition, we would expect the platform to undertake a regular review and update of these measures.

We are proposing to apply the same requirement to operators of investment-based crowdfunding platforms.

Issues for consideration

Q36: Do you agree with our proposal to apply further IT resilience requirements to those carrying out the activity of operating an Investment-based Crowdfunding Platform? If not, can you explain why they should not be applied and what could be applied in their place?

Business cessation plan

Under CP109, we proposed that a 'Business Cessation Plan' is developed to address the event that the Authorised Firm carrying out the activity of operating the loan-based Crowdfunding Platform ceases to operate.

**Please see
draft Rule
COB11.3.17**

We are proposing that this requirement also applies to the Authorised Firm carrying out the activity of operating an Investment-based Crowdfunding Platform where it ceases to operate. The Operator will need to ensure that it has an effective plan in place for the orderly administration of existing Investments plus current and recently closed pitches, including holding and controlling Client Assets (if applicable) if the crowdfunding platform ceases to carry on its regulated activity. The size and complexity of the plan will broadly be based on the size and complexity of the forecast platform operations (this will need to be revisited as the operations grow). Evidence of how the plan would work in practice must be demonstrated during the licensing phase and also during supervisory visits.

We appreciate that some may feel such a plan comes at a high cost, but we are taking into account the potential detriment to investors if the platform were to fail without a proper cessation plan in place and believe the cost to investors will be higher if an operator fails and there are no arrangements in place to administer current and recently closed pitches.

Issues for consideration

Q37: Do you agree that those operating an Investment-based Crowdfunding Platform should be required to have a Business Cessation Plan in place? If not, why?

Transfer Facility

**Please see
draft Rule
COB 11.3.15**

Under CP109, we proposed to allow those carrying out the activity of operating a Loan-based Crowdfunding Platform to create a transfer facility to assist lenders to transfer their rights or obligations under a loan agreement.

We propose to allow those carrying out the activity of operating an Investment-based Crowdfunding Platform to create a facility that allows the disposal of Securities by existing shareholders. This facility should exist in order to provide a measure of liquidity and a possible exit route for current and active investors. It is **not** anticipated that it would be used as a venue for active trading, or by the platform operator to raise further funds, nor should the platform operator try and act in any other capacity that may stray into other regulated Financial Services.

**Please see
draft Rule
COB11.3.15**

If an investment-based crowdfunding platform provides such a facility then the following requirements must be met:

- a) the facility relates only to Securities originally facilitated on the platform;
- b) the new investor must have access to all the proposal information provided during the fundraising period and any subsequent material information;
- c) transfers can only take place between investors who are already Clients of the service and have initially funded Investments; and
- d) the platform does not use this process as a measure to make further income – a charge may be applied that is commensurate to the time and effort involved to facilitate disposal of the Investment.

This process and associated requirements must be clearly displayed on the platform's website so that both investors and Issuers have a clear understanding about how this facility operates.

Issues for consideration

Q38: Do you agree that those operating an Investment-based Crowdfunding Platform should be able to operate a facility to assist investors in disposing of their investment? Do you have any concerns with the proposed requirements that must be met if setting up a facility? If so, why, and what changes would you propose?

2.5 Anti-money laundering requirements

Investment-based crowdfunding carries with it an AML risk, for example, the misuse of funds for terrorist financing, or the lending of funds obtained through illegal activities. These AML risks have been identified by the European Union Supervisory Authorities, and the Financial Action Task Force (FATF). This risk is also set out in the table of crowdfunding risks set out at the beginning of this Consultation Paper.

In order to counter these risks, we propose to apply the DFSA's AML regime (as already applicable to all Relevant Persons) to those operating Investment-based Crowdfunding Platforms. In this instance, the platform would have to carry out appropriate AML checks on both their Issuers and investors.

Issues for consideration

Q39: Do you agree with our proposal to require those carrying out the activity of operating an investment-based crowdfunding platform to comply with the AML Module? If not, why? What adjustments would you propose?

2.6 Fees

We intend to charge fees for those carrying out the activity of operating an Investment-based Crowdfunding Platform. The following fees are proposed:

Application Fee	Periodic Fee
US\$5,000	US\$10,000

Please see draft Rule FER2.1.1 & FER 3.2.1 As per FER 3.2.1(2)(b), US\$1,000 for each complete US\$1,000,000 of expenditure will be charged in addition to the annual fee. FER 3.2.2 sets out the meaning of 'expenditure' and how this should be calculated.

Issues for consideration

Q40: Are the levels of the proposed fees considered appropriate? If not, what alternative would you suggest, and why?

Annex 1: Comments Table

Name of commentator:		
Name of entity (if applicable)		
Is your response confidential?	<input type="checkbox"/> Yes	<input type="checkbox"/> No

Notes:

- The DFSA reserves the right to publish, including on its website, any comments you provide. However, if you wish your comments to be kept anonymous, you must expressly request at the time of making comments that this should be the case.
- Your answers may require explanations. Please include those in the “second column”.
- If you do not wish to comment on any issue, please select the “no comments” box.

Ref.	Response	Comments on proposal
Q1:	Do you think there are any other risks relating to crowdfunding that we should seek to consider and address?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q2:	Do you agree with our proposal to have a single Financial Service Activity of Operating a Crowdfunding Platform that covers investment-based crowdfunding as well as loan-based crowdfunding? If not, why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q3:	Do you agree with the description of the activity for investment-based crowdfunding and the accompanying terminology? If not, why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q4:	Do you agree with our proposal not to permit the provision of advice, discretionary portfolio management services and managing a CIF by a person providing investment-based crowdfunding services? If not, why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q5:	Do you agree with our proposal to create a new category of Exempt Offers for Issuers that make an Offer of Securities through an Investment-based Crowdfunding platform? If not, what alternative would you suggest, and why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q6:	Do you agree with our proposal to impose a limit in the new category of Exempt Offers to Offers of Securities through an Investment-based Crowdfunding platform that do not exceed to USD 5 million, over a period of 12-months? If not, why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q7:	Do you think there are other areas in relation to the Code of Market Conduct, relating to Investment-based crowdfunding platforms, that may constitute market abuse that we should seek to consider and address?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q8:	Should an AMI be able to obtain a licence to carry out the activity of operating an Investment-based Crowdfunding Platform?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q9:	If an AMI was to obtain a licence to carry out the activity of operating an Investment-based Crowdfunding Platform, on what terms should it operate?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q10:	Do you agree that an investment crowdfunding platform wishing to hold out its services as being Shari'ah compliant must comply with IFR rules? If not, why not? What alternative measures for oversight and review could be appropriate instead of the appointment of a Shari'ah Supervisory Board?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q11:	Do you agree that a regulated investment-based crowdfunding platform wishing to carry out other unregulated crowdfunding activities (reward or donation) must make it clear to its customers what activities are regulated and not regulated? If not, why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments

Ref.	Response	Comments on proposal
	<input type="checkbox"/> No	
Q12:	Do you agree with our proposal to place those Operating a Crowdfunding Platform into a PIB Category 4? If not, what alternative PIB Category could be applied, and why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q13:	Do you agree with our proposal to exempt crowdfunding operators who opt to hold or control Client Money from the current restriction under COB6.12.12? If not, why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q14:	Do you agree with our proposal to apply a higher Base Capital Requirement of USD140,000 to those Operating a Crowdfunding Platform that hold or control Client Assets? If not, what alternative Base Capital Requirement could be applied, and why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q15:	Do you agree with our proposal to require Branches to hold capital as per the Category 4 Capital Requirements? If not, what alternatives could be suggested?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q16:	Do you agree with our alternative proposal to require a crowdfunding operator to set up as a Subsidiary in the DIFC? If not, what alternatives could be suggested?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q17:	Do you agree with our proposals to deal with PII cover for such businesses? If not, why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
	<input type="checkbox"/> No comments	
Q18:	Do you agree with our proposal to require those carrying out the activity of operating an Investment-based Crowdfunding Platform to comply with GEN requirements? If not, why and what alternatives would you propose?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q19:	Do you agree with our proposal to limit the investments allowed to be offered on an investment-based crowdfunding platform to Shares and Debentures? If not, why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q20:	Do you agree with our proposal to expand the proposed new chapter in COB to include the activity of operating an Investment-based Crowdfunding Platform? If not, why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q21:	Do you agree with our proposal to allow platform operators to treat Issuers as 'service-based' Professional Clients under COB 2.3? If not, why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q22:	Do you agree with our proposal to restrict platform operators from marketing any information on specific offers unless it is made on the platform? If not, why?	

Ref.	Response	Comments on proposal
	<input type="checkbox"/> Yes	
	<input type="checkbox"/> No	
Q23:	Do you have any comments on our proposed approach to requiring risk warnings and other disclosures by those carrying out the activity of operating an Investment-based Crowdfunding Platform?	
	<input type="checkbox"/> Yes	
	<input type="checkbox"/> No	
Q24:	Do you agree with our proposal to apply COB 3.3 relating to Key Information and Client Agreements? If not why?	
	<input type="checkbox"/> Yes	
	<input type="checkbox"/> No	
Q25:	Do you agree with our proposal to add further information requirements to COB App2 relating to Client Agreements? If not, why?	
	<input type="checkbox"/> Yes	
	<input type="checkbox"/> No	
Q26:	Do you agree with our proposal to require an operator of an investment-based crowdfunding platform to require a Retail Client to sign a risk acknowledgement form before making an investment using the platform? If not, what alternatives would you suggest, and why?	
	<input type="checkbox"/> Yes	
	<input type="checkbox"/> No	
Q27:	Do you agree with the proposed minimum due diligence requirements to be applied to borrowers wishing to join a loan-based crowdfunding platform? If not, what alternatives would you propose?	
	<input type="checkbox"/> Yes	
	<input type="checkbox"/> No	
Q28:	Do you agree with our proposal to apply COB 3.5 relating to Conflicts of Interests and include a requirement for an operator to prohibit its staff from using that platform? If not, why?	
	<input type="checkbox"/> Yes	
	<input type="checkbox"/> No	
Q29:	What are your views on whether a platform operator should be able to participate in loans administered by the platform? What controls could be put in place to address conflicts of interest that could arise under such a proposal? What are your views on whether a platform operator should be mandated to take a small interest in each loan administered via the platform?	
	<input type="checkbox"/> Yes	
	<input type="checkbox"/> No	
Q30:	Do you agree that those carrying out the activity of operating an Investment-based Crowdfunding Platform should be subject to our Client Money requirements if they hold or control Client Money? If not, why, and what adjustments or changes would you propose?	
	<input type="checkbox"/> Yes	
	<input type="checkbox"/> No	
Q31:	Do you agree that those carrying out the activity of operating an Investment-based Crowdfunding Platform should be subject to our Client Investments requirements if they hold or control Client Investments? If not, why, and what adjustments or changes would you propose?	
	<input type="checkbox"/> Yes	
	<input type="checkbox"/> No	
Q32:	Do you agree with our proposal to set an aggregate limit on the amounts retail investors can invest through an investment-based crowdfunding platform? If not,	

Ref.	Response	Comments on proposal
	why, and what changes would you propose?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q33:	Do you agree with our proposal to set a minimum cooling-off period that an Operator is required to give to investors investing through an investment-based crowdfunding platform? If not, why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q34:	Do you agree with our proposal to allow those operating an investment-based platform to establish an information forum? If not, why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q35:	Do you agree with our proposals to develop requirements relating to the fair treatment of investors? If not, why, and what changes would you propose?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q36:	Do you agree with our proposal to apply further IT resilience requirements to those carrying out the activity of operating an Investment-based Crowdfunding Platform? If not, can you explain why they should not be applied and what could be applied in their place?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q37:	Do you agree that those operating an Investment-based Crowdfunding Platform should be required to have a Business Cessation Plan in place? If not, why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q38:	Do you agree that those operating an Investment-based Crowdfunding Platform should be able to operate a facility to assist investors in disposing of their investment? Do you have any concerns with the proposed requirements that must be met if setting up a facility? If so, why, and what changes would you propose?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q39:	Do you agree with our proposal to require those carrying out the activity of operating an investment-based crowdfunding platform to comply with the AML Module? If not, why? What adjustments would you propose?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	
Q40:	Are the levels of the proposed fees considered appropriate? If not, what alternative would you suggest, and why?	
	<input type="checkbox"/> Yes	<input type="checkbox"/> No comments
	<input type="checkbox"/> No	