

MEDIA RELEASE:

DFSA Launches Second Consultation into Crowdfunding Framework to support SME Financing

Dubai, UAE, 13 February 2017: The Dubai Financial Services Authority (DFSA) has today launched the next phase of consultations on its proposed framework for regulating crowdfunding platforms in the Dubai International Financial Centre (DIFC), with a paper detailing its approach to investment-based crowdfunding.

The consultation is the second in a series of papers which outline the DFSA's measures to support the sustainable development of crowdfunding, and financial technology more broadly, within the DIFC. In January, the DFSA issued its first consultation on a proposal for regulating loan-based crowdfunding platforms under a new Financial Service, that provides the fundamental framework for crowdfunding firms.

Today's consultation is an extension of that proposal and deals with the specific risks associated with investment-based crowdfunding. This model of crowdfunding differs to loan-based funding by enabling start-up companies or small businesses to raise financing by selling stakes in their business. The growth of this market accelerated in the wake of the 2008 financial crisis when access to traditional funding sources became constrained.

In the UAE, in particular, crowdfunding is expected to become a more established form of financing for the important small to medium sized enterprise sector in the region. A regulatory framework that targets the specific requirements of crowdfunding platforms contribute to the sustainable development of this valuable funding source for SMEs and

the UAE economy.

Ian Johnston, Chief Executive at the DFSA said: “This is our second consultation on our proposed framework for regulating crowdfunding platforms and reflects the increasing importance of this funding source to the UAE’s SME sector. Our approach remains consistent for loan-based and investment-based crowdfunding platforms in its aim to define a clear structure for the sustainable development of this industry.”

Key proposals in today’s consultation paper include:

- A tailored regime specifically designed for those operating such a platform;
- Appropriate systems and controls placed on the platform’s operations;
- Operational transparency and adequate disclosure made to all participants – Issuers and investors – on the platform;
- Suitable checks on the platform’s participants – Issuers and investors;
- Appropriate safeguarding and segregation of Client Assets;
- The development of business cessation plans; and
- Allowing the transfer of securities between investors.

The DFSA’s proposals for regulating crowdfunding platforms form part of its approach to creating an infrastructure that fosters innovation in financial services. It aligns with the UAE’s National Innovation Strategy, promoted by His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE, and Ruler of Dubai, to create an innovation-friendly ecosystem.

The DFSA’s consultations on crowdfunding follow the launch of the DIFC’s FinTech Hive Accelerator programme earlier in the year. The programme provides a platform for financial services and technology firms to build solutions for the financial sector.

The consultation paper can be accessed by the following link:

[http://dfs.ae/MediaRelease/News/Notice-of-Consultation-Paper-Release-\(2\)](http://dfs.ae/MediaRelease/News/Notice-of-Consultation-Paper-Release-(2))

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Editor's notes:

The Dubai Financial Services Authority (DFSA) on FinTech

In 2015, the DFSA said that it was looking at the evolving world of financial technology, or FinTech, and how this could be accommodated within the DFSA's regulatory regime and facilitated within the DIFC. The DFSA has been encouraged by the number of firms wanting to discuss opportunities in the FinTech area with the DFSA. Some of these firms are considering activities that would – in the normal course of events – be regulated, while some are considering, or already carrying out, activities that do not need to be regulated by the DFSA. The DFSA has stated that it is very much 'open for business' when it comes to FinTech and will deal with each firm, proposition, or idea, and its unique circumstances, on a case-by-case basis.

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 also exercises delegated enforcement powers under the DIFC Companies Law. These include powers to investigate the affairs of DIFC companies and partnerships where a material breach of DIFC Companies Law is suspected and to pursue enforcement remedies available to the Registrar of Companies (Roc).

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

Ian 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, Ian played a leading role in the Trustee industry and served on the National Council of the Trustee Corporations Association.

In 1999, Ian 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, Ian took up a position with the Hong Kong Securities and Futures Commission as a Special Advisor.

Ian is a past Chairman of the Joint Forum, which comprise representatives of the major international regulatory standard-setters (IOSCO, IAIS and the Basel Committee). In August 2016, he was re-elected to IOSCO's Growth and Emerging Markets Steering Committee, a position he has held since 2013. 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).