



# **Conventional Financing-Based Crowdfunding Directives**



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### A. Definition of Regulated 'Conventional Financing-Based Crowdfunding Business' ("CFC"):

- A.1 CFC Person to Business (P2B) is a lending e-platform which takes place on an online portal, on which people lend money to businesses, for the purpose of gaining a financial return in the form of interest payment and a repayment of credit over a pre-specified period of time.
- A.2 CFC Platforms may raise funds for borrowers based in the Kingdom of Bahrain or abroad.

### B. Requirement to be licensed:

- B.1 Firms operating an electronic platform in relation to lending must be licensed in the Kingdom of Bahrain, as 'operators of P2B Conventional Financing-based Crowdfunding Platforms', under the CBB Rulebook Volume 5 – Financing Based Crowdfunding Platform Operator.
- B.2 It is not permitted for a CFC Platform Operator to undertake Business to Business (B2B), Business to Person (B2P) or Person to Person (P2P) lending.
- B.3 A CFC Platform Operator must become a member of the Bahrain Credit Reference Bureau.

### C. Licensing Criteria:

- C.1 The role of CFC Platform Operators is restricted to *arranging deals*, bringing together borrowers and lenders. CFC Platform Operators are strictly prohibited to provide any advice on deals.
- C.2 A CFC Platform Operator must ensure that its officers, employees and their family members do not carry the following activities through the CFC platform:
  - (a) Lend money or provide finance to a borrower;
  - (b) Borrow money from a lender; or
  - (c) Hold any direct or indirect interest in the capital or voting rights of a borrower or lender.
- C.2A A CFC Platform Operator itself may lend money to borrowers, who use the platform subject to:
  - i. Obtaining the required license from the CBB for carrying financial services of providing credit; and
  - ii. Adequate disclosure of the conflicts of interest which will arise for each transaction on their website.
- C.3 CFC Platform Operators must make arrangements with a local retail bank (which holds the appropriate CBB license) to facilitate transactions.
  - i. Lenders must prefund the full committed amount by depositing it at the designated licensed retail bank in the Kingdom of Bahrain. The name of the retail bank must be disclosed to the CBB.



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- ii. The CFC Platform Operator must designate an escrow account as an aggregate account for all borrowers. The CFC Platform Operator must maintain within its records separate sub-accounts for each borrower. The name of the designated bank must be provided to the lenders.
- C.4 CFC Platform Operators must make sure that the lending thresholds and the prescribed tenors for the loans are all met.
- C.5 CFC Platform Operators are responsible to check that the 'Self-Declaration' form<sup>1</sup> has been signed and submitted by the lenders, prior to investing in borrowings arranged through the platform.
- C.6 CFC Platform Operators must demonstrate to the CBB that they have devised appropriate consumer protection standards.
- C.7 CFC Platform Operators must ensure that sufficient information is available to lenders on the profiles of the borrowers, by relying on the information disclosed by the borrowers in the 'Standard Forms for Borrowers' and the related required documents to be submitted by the borrowers, thus allowing lenders to make informed lending decisions. Moreover, the documentation must state the governing law for the financing transaction. The disclosure of such information shall be on standard CBB-prescribed templates. Additionally, such information must be provided to potential lenders before they agree to commit to lending. In cases where the borrower is not based in the Kingdom of Bahrain, adequate disclosure on cross-border risk must be provided to the potential lenders.
- C.8 It is the responsibility of the lenders to perform their own creditworthiness assessments on the borrowers and other related due diligence before making any commitment to lend.
- C.9 CFC Platform Operators must comply with the FC module of Rulebook Volume 5 under 'Common Modules' with respect to Anti-Money Laundering and Combating the Financing of Terrorism requirements.
- C.10 CFC Platform Operators must establish effective systematic internal procedures for establishing and verifying the identity of lenders and the source of their funds. They must undertake lender due diligence ('KYC') by requiring them to fill out the 'Standard Lender Form', along with submitting the required related documents<sup>2</sup>, including FATCA report.
- C.11 CFC Platform Operators must establish a framework which sets out policies and procedures to effectively and efficiently manage conflicts of interest. Such conflicts must be managed in a timely manner.

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<sup>1</sup> The 'Self-Declaration Form' must include, amongst other things, a declaration that the lender will meet the lending thresholds imposed by the CBB and an acknowledgment that they may lose all or part of their funds invested.

<sup>2</sup> All Forms are to be provided by the CBB under Part B of Rulebook Volume 5.



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- C.12 CFC Platform Operators must have a fair dealing policy for excluding a borrower from using the crowdfunding platform if there is adequate reason to believe that the borrower, in relation to any loan arrangements, has:
- i. Engaged in a conduct that is misleading or deceptive or likely to mislead or deceive; or
  - ii. Made a false or misleading representation; or
  - iii. Made an unsubstantiated representation.
- C.13 CFC Platform Operators are responsible for tracking the performance of the loan portfolios and are required to disclose this information to the lenders and the CBB on a quarterly basis as per the templates to be specified by the CBB. The information provided by the CFC Operators must be clear, fair, relevant and not misleading.
- C.14 CFC Platform Operators are responsible for having Business Continuity and Disaster Recovery plans in place, which must be approved by the CBB, to ensure that all existing outstanding loans will continue to be administered if the platform collapses or goes out of business.
- C.15 The CBB has the right to impose additional requirements on CFC Platform Operators, as and when it deems necessary.
- C.16 CFC Platform Operators must clearly and publicly disclose their fees, charges and commissions.
- C.17 CFC Platform Operators must meet the minimum capital requirements specified by the CBB and make sure that at all times they have adequate financial resources to run their business and take on the needed risks.
- C.18 CFC Platform Operators must have adequate non-financial resources (e.g. efficient management with sufficient knowledge of the business and adequate experience, IT strategy, controls and systems, etc.) required to run the business.
- C.19 CCF Crowdfunding Platform Operators must appoint at least 2 approved persons. One of the approved persons must be a Compliance Officer who can also handle the responsibilities of the MLRO, and the second person is the CEO of the CFC Crowdfunding Platform Operator.
- C.20 CFC Platform Operators must ensure cyber-security at all times including conducting IT security penetration testing semi-annually by an independent consultant.
- C.21 CFC Platform Operators must maintain relevant systems in place for mitigating and managing operational and other risks.
- C.22 CFC Platform Operators are obliged to exert their best efforts in following up the repayment process (collection of installments) from the borrowers on behalf of the lenders.



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### **D. Lending Thresholds:**

- D.1 Under a CFC agreement, the amount of credit provided must be less than or equal to BD 100,000 in aggregate, per borrower, within a 12-month period. Additionally, the tenor of loans must not exceed 5 years.
- D.2 Under a CFC agreement, lenders are restricted to lending not more than 10% of their net assets to any single borrower. All lenders intending to participate in a CFC Platform must fill out the 'Self Declaration Form' declaring that they meet this requirement.
- D.3 The minimum subscription to be received in a CFC offer must not be less than 80% of the crowdfunding offer size. In the event that the borrower is unable to receive the minimum required loan subscription, all subscription monies received must be refunded to the lenders no later than 7 calendar days of the closing date of the crowdfunding offer.
- D.4 In case of over-subscription, CFC Platform Operator must ensure that no funding shall be made to the borrower in excess of the original offer size. Also, the lenders must get proportionate share of the Crowdfunding offer size.

### **E. Lender and Borrower Definition:**

- E.1 The lender in a CFC agreement has to be an Accredited or Expert individual (as defined in the CBB Rulebook), while the borrower must be a small or medium sized business (SME) with paid-up capital not exceeding BD 250,000.

### **F. Minimum Capital Requirements:**

- F.1 The minimum capital requirement for CFC Platform Operators is BD 50,000 to be maintained on an on-going basis.

### **G. Cessation of Business:**

- G.1 In cases where a CFC Platform Operator decides to voluntarily exit the business, the CBB must be notified immediately.
- G.2 As specified in Article 50 of the CBB Law, a licensee wishing to cease to provide or suspend any or all of the licensed regulated services of its operations and/or liquidate its business must obtain the CBB's prior approval.