



CROWDFUNDING PLATFORM OPERATORS MODULE



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MODULE	CFP: Crowdfunding Platform Operators
CHAPTER	CFP-A: Introduction

CFP-A.1 Purpose and Scope

CFP-A.1.1 This Module sets out the Central Bank of Bahrain's (CBB) regulations applicable to financing-based and equity-based offers on crowdfunding platforms and to crowdfunding platform operators. Reward-based or donation-based crowdfunding models are excluded from the scope of this Module. The authorisation requirements for crowdfunding platform operators undertaking regulated ancillary services in the Kingdom of Bahrain are stipulated in the Authorisation Module (Module AU) of CBB Rulebook - Volume 5. Crowdfunding platform operators are also subject to ongoing provisions contained in this Module and the following modules of CBB Rulebook Volume 5:

- (a) Common Modules: Principles of Business Module, Auditors and Accounting Standards Module, Financial Crime Module, Enforcement Module (Modules PB, AA, FC and EN)
- (b) CBB Reporting Requirements Module (Module BR);
- (c) General Requirements Module (Module GR); and
- (d) High-Level Controls Module (Module HC).

CFP-A.1.2 Crowdfunding platform operator refers to a person licensed by the CBB to operate a platform through an online portal, on which funding to businesses (Person to Business – P2B) and (Business to Business – B2B) are allowed. Licensees may also host income producing real estate on the platform which can include both residential and commercial properties.

CFP-A.1.3 Crowdfunding generally involves the raising of funds usually through an online portal or other electronic media from a large number of people who make relatively small financial contributions to the fund raising. The CBB recognises both conventional and sharia compliant crowdfunding business models. The crowdfunding platform operator may operate either one or both of the following models:

1. *Financing-based crowdfunding*: people or businesses (lenders) lend money to businesses (borrowers) hosted on the platform in return for interest/profit and repayment of principal over a pre-specified period.
2. *Equity-based crowdfunding*: businesses (issuers) raise capital through issuance of ordinary shares, or other equity instruments like preferred shares, and people or business (investors) invest in these instruments in return for dividends, capital appreciation etc.

CFP-A.1.4

For the purposes of this Module, equity crowdfunding offers exclude financial instruments such as SAFE agreements (Simple Agreement for Future Equity) or similar products which has conversion features contingent on certain pre-determined conditions being met.

Legal Basis

CFP-A.1.5

This Module contains the CBB's Directive, Regulation and Resolutions (as amended from time to time) applicable to crowdfunding platform operators under Volume 5 of the CBB Rulebook. It is issued under the powers available to the CBB under Articles 37 to 42, 44 to 48 and 180 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law').

MODULE	CFP: Crowdfunding Platform Operators
CHAPTER	CFP-A: Introduction

CFP-A.2 Module History

Evolution of Module

CFP-A.2.1 This Module was first issued in xx 2022 as part of Volume 5 (Specialised Licensees). Any material changes that have subsequently been made to this Module are annotated with the calendar quarter date in which the change was made: Chapter UG-3 provides further details on Rulebook maintenance and version control.

CFP-A.2.2 A list of recent changes made to this Module is provided below:

Module Ref.	Change Date	Description of Changes



MODULE	CFP: Crowdfunding Platform Operators
CHAPTER	CFP-1: Operating Requirements

CFP-1.1 Platform Offers & Disclosures

CFP-1.1.1

Crowdfunding platform operators must prominently display on their website the following:

- (a) A general risk warning;
- (b) Details of how and by whom the operator is remunerated for the service it provides, including fees and charges it imposes on lenders/investors and borrowers/issuers;
- (c) For financing-based crowdfunding: the actual default rates as a percentage of loans entered into on the platform and the number and aggregate value of loans in default; and
- (d) For equity-based crowdfunding: the actual failure rate of issuers who use the platform.
- (e) The offering statement for each crowdfunding offer which must disclose any conflicts of interest (as required by Chapter 2); and
- (f) Information on rights of clients relating to participation in crowdfunding offer, including right to withdraw commitments, lodging complaints and any voting rights.

CFP-1.1.2

A crowdfunding offer is open from the time when it is first published on the platform and must be closed on the closing date or at the earliest of the following:

- (a) Three months after the offer is made, unless a specific approval has obtained from the CBB;
- (b) When the offer is fully subscribed (unless over-subscription is allowed); and
- (c) When the borrower/issuer making the offer withdraws the offer;

CFP-1.1.3

A crowdfunding offer must be withdrawn by the crowdfunding platform operator if it has material concerns regarding the crowdfunding borrower/issuer or it becomes aware of any information that indicates the offer is misleading, fraudulent, deceptive.



MODULE	CFP: Crowdfunding Platform Operators
CHAPTER	CFP-1: Operating Requirements

CFP-1.1 Platform Offers & Disclosures (continued)

CFP-1.1.4

A crowdfunding borrower/issuer is subject to the following limits in respect of crowdfunding:

- (a) Financing-based crowdfunding offers must be less than or equal to BD 500,000 in aggregate, per borrower, within a 12-month period, except where the funding raised is to be used for a Government of Bahrain led initiative/project. Additionally, the tenor of loans must not exceed 5 years; and
- (b) Equity-based crowdfunding offers must be less than or equal to BD 250,000, per issuer, (or BD 500,000 in respect of equity crowdfunding issuers who qualify as entities engaged in real estate projects) within a 12-month period.

CFP-1.1.5

The minimum subscription to be received in a crowdfunding offer must not be less than 80% of the crowdfunding offer size.

CFP-1.1.6

Crowdfunding platform operators must provide users the following information upon on-boarding:

- (a) The process for the offering of loans or equity through the platform and the risks associated with lending or investing in crowdfunding offers;
- (b) The limits on raising funds applicable on borrowers/issuers;
- (c) The right of retail clients to withdraw their commitments within 5 working days from the time the commitment is made;
- (d) The existence or non-existence of a secondary market;
- (e) The due-diligence process of the platform for hosting a borrower/issuer; and
- (f) Whether there will be an ongoing relationship between the platform and the borrower/issuer following the closing of an offer.



MODULE	CFP: Crowdfunding Platform Operators
CHAPTER	CFP-1: Operating Requirements

CFP-1.1 Platform Offers & Disclosures (continued)

CFP-1.1.7

Crowdfunding platform operators must additionally display on their website key information on how their platform operates, including:

- (a) The eligibility criteria for borrowers/lenders and issuers/investors that use the platform;
- (b) Arrangements and safeguards for client money held or controlled by the operator, including details of any legal arrangements (such as nominee accounts) that may be used to hold client money;
- (c) What will happen if loans sought by a borrower or funds sought by an issuer either fail to meet, or exceed, the target level;
- (d) Steps the operator will take and the rights of the relevant parties if there is a material change in a borrower's or an issuer's circumstances;
- (e) How the operator will deal with overdue payments or a default by a borrower or failure of an issuer; and
- (f) Which jurisdiction's laws will govern the financing agreement.

CFP-1.1.8

Crowdfunding platform operators must provide on their platform a user-friendly facility to allow investors/lenders to make their bid to crowdfunding offers. Such bids may only be made during the period a crowdfunding offer is available for investment/lending. Licensees must also provide on their platform a facility for communication among the investors/lenders, borrowers/issuers and the crowdfunding platform operator (e.g. an online forum).

CFP-1.1.9

Crowdfunding platform operators must allot/allocate shares, in accordance with the allotment basis stipulated in the equity crowdfunding offering statement, within 7 working days from closing date.



MODULE	CFP: Crowdfunding Platform Operators
CHAPTER	CFP-1: Operating Requirements

CFP-1.1 Platform Offers & Disclosures (continued)

CFP-1.1.10

Crowdfunding platform operators must not advertise a specific crowdfunding offer hosted on its platform or make any public statements that are reasonably likely to induce people to fund a particular crowdfunding offer. This requirement does not prevent an operator from generally promoting its platform to potential clients, provided it does not advertise a specific offer.

CFP-1.1.11

Crowdfunding platform operators must have in place effective and transparent procedures for the prompt, fair and consistent handling of complaints received from clients in accordance with Section GR-10 of GR Module and publish the procedures on their websites.

CFP-1.1.12

For the purposes of this module, commercial entities incorporated in the Kingdom of Bahrain or incorporated in an overseas jurisdiction that is not a UN sanctioned, non-cooperative or high-risk jurisdiction are eligible to be hosted on crowdfunding platform operator, except the following:

- (a) Financial institutions;
- (b) Public-listed companies; and
- (c) Holding company structures and non-operative special purposes vehicles (SPVs).

Offers to Retail Clients

CFP-1.1.13

Crowdfunding platform operators, upon onboarding retail clients, must undertake a suitability and appropriateness assessment to gauge the client's knowledge, experience, financial situation (including the client's ability to bear losses) and the client's understanding of risks associated with crowdfunding by seeking information from the lender/investor.



MODULE	CFP: Crowdfunding Platform Operators
CHAPTER	CFP-1: Operating Requirements

CFP-1.1 Platform Offers & Disclosures (continued)

CFP-1.1.14

Crowdfunding platform operators must ensure that each retail client completes a self-declaration form before the client is allowed to use the platform which must include the following acknowledgements:

- (a) that the client understands the risks involved in crowdfunding;
- (b) that the client will only commit money that the client can afford to lose;
- (c) that the client understands the potential to lose part or all of his investment made on the platform;
- (d) that the client may face difficulties in exiting his investments made on the platform; and
- (e) that the client is aware that the crowdfunding offer has neither been reviewed nor approved by the CBB.

CFP-1.1.15

Crowdfunding platform operators must provide retail clients unconditional right to withdraw their commitment to lend or invest in a crowdfunding offer within 5 working days from the time the commitment is made. No fee or penalty must be charged to such persons if a commitment is withdrawn.



MODULE	CFP: Crowdfunding Platform Operators
CHAPTER	CFP-1: Operating Requirements

CFP-1.2 Managing Conflicts of Interest

CFP-1.2.1 Crowdfunding platform operators must not participate in any crowdfunding offer hosted on their platform.

CFP-1.2.2 Crowdfunding platform operators must maintain and operate effective internal rules to prevent conflicts of interest. Licensees must take appropriate steps to prevent, identify, and manage conflicts of interest between their shareholders, their managers or employees, or any natural or legal person linked to them by control and their clients, or between one client and another client. Licensees must disclose to their clients the general nature and sources of conflicts of interest and the steps taken to mitigate them.

CFP-1.2.3 Crowdfunding platform operators must not accept the following persons as borrowers/issuers on their crowdfunding platform:

- (a) Shareholders that hold 20% or more of share capital or voting rights of the platform;
- (b) Managers or employees of the platform; and
- (c) Any natural or legal persons linked to those shareholders, managers or employees by control.

CFP-1.2.4 Crowdfunding platform operators that accept as investors/lenders any of the persons referred to in Subparagraphs CFP-1.2.3 (a), (b) and (c) in their crowdfunding offers must fully disclose on their website the fact that they accept such persons as investors/lenders and information on the specific crowdfunding projects invested in. Licensees must ensure that such crowdfunding offers are funded under the same conditions as those of other investors/lenders and that persons under (a), (b) and (c) do not enjoy any preferential treatment or privileged access to information.

CFP-1.2.5 Crowdfunding platform operators must not provide direct or indirect financial assistance to lenders/investors to lend or invest in a crowdfunding borrower/issuer hosted on its platform.



MODULE	CFP: Crowdfunding Platform Operators
CHAPTER	CFP-1: Operating Requirements

CFP-1.2 Managing Conflicts of Interest (continued)

CFP-1.2.6

Crowdfunding platform operators must not provide advice on the crowdfunding offers hosted on their platform. The existence of filtering tools on the platform is not regarded as advice if such tools provide information to clients in an objective and neutral manner that does not constitute a recommendation. Such tools include those that display results based on criteria relating to purely objective product features. Objective product features in this context could be pre-defined project criteria such as the economic sector, the instrument used and the interest rate, or the risk category where sufficient information regarding the calculation method is disclosed. Similarly, key financial figures calculated without any scope for discretion are also considered to be objective criteria.



MODULE	CFP: Crowdfunding Platform Operators
CHAPTER	CFP-1: Operating Requirements

CFP-1.3 Due-diligence of crowdfunding borrowers/issuers

CFP-1.3.1

Crowdfunding platform operators must conduct due-diligence of crowdfunding borrowers/issuers which includes at minimum procedures to confirm the following:

- (a) The identity of the company through its commercial registration (or Legal Entity Identifier where relevant) and its registered office and principal place of business;
- (b) The identity and place of domicile of the company's owners and key management personnel;
- (c) That the borrower/issuer and its key personnel have no criminal record in respect of local laws in the fields of commercial law, insolvency law, financial services law, anti-money laundering law, fraud law or professional liability obligations;
- (d) That the borrower/issuer is not established in a UN sanctioned or non-cooperative jurisdiction or in a high-risk country;
- (e) The borrower/issuer's current state and past performance, credit history and business valuation (where relevant);
- (f) That the business is being operated in accordance with applicable laws (in the case of overseas crowdfunding borrowers/issuers a confirmation that the overseas jurisdiction allows hosting of businesses on crowdfunding platforms of other jurisdictions); and
- (g) That the crowdfunding offering statement provided by the borrower/issuer is complete and not misleading.

CFP-1.3.2

Crowdfunding platform operators that allow real estate crowdfunding on their platforms must undertake the following due-diligence prior to hosting a real estate crowdfunding offer:

- (a) Confirm that the offer is for an income producing property and not a new development or construction project;
- (b) Confirm the identity of the seller, including, if it is a body corporate, details of its incorporation and business registration;
- (c) Ensure that the seller holds valid legal title to the property;
- (d) Confirm that the property is free from any lien; and
- (e) Obtain a valuation report from the crowdfunding borrower/issuer provided by an independent, professional and reputable valuer.



MODULE	CFP: Crowdfunding Platform Operators
CHAPTER	CFP-1: Operating Requirements

CFP-1.4 Client Money

CFP-1.4.1

Crowdfunding platform operators must hold client money, securities or other client assets, separate from its own and are not subject to any lien or other restrictions. Client money must be kept in a client bank account with a retail bank in the Kingdom of Bahrain. Licensees must designate a separate bank account (or sub-account) for each crowdfunding offer. Licensees must establish systems and controls for handling of securities, money or other assets, including maintaining up-to-date records of client assets held.

CFP-1.4.2

Crowdfunding platform operators must appoint their external auditors or independent third-party audit firm to perform an audit on client assets and the licensee's procedures for handling client assets. The objectives of the audit must include:

- (a) Ensuring that client assets are properly segregated and not comingled with the licensee's own assets (as per Paragraph CFP-1.4.1);
- (b) The licensee has established and implemented adequate internal control procedures and systems to ensure client assets are always segregated;
- (c) Client assets are not used for purposes other than for crowdfunding arrangements; and
- (d) Fraud risks are adequately controlled and mitigated.

CFP-1.4.3

Funds raised must be released to the issuer within one business day of registering the shares in the share register. In case of financing-based crowdfunding, the money must be released to the borrower within one business day of the completion of fund raising. In all cases, client money may only be released if the criteria for raising the funds has been met i.e. the minimum amount required in the offering statements has been met and there has not been any material adverse change to the crowdfunding offer.

CFP-1.4.4

Crowdfunding platform operators must have mechanisms in place to refund the money to lenders/investors within 7 working days if:

- (a) due to any reason the crowdfunding offer is withdrawn by the platform;
- (b) the subscription amount is less than the minimum required in accordance with the offering statement; or
- (c) the offer is oversubscribed, and the platform does not allow oversubscription.



MODULE	CFP: Crowdfunding Platform Operators
CHAPTER	CFP-1: Operating Requirements

CFP-1.5 Secondary Market

CFP-1.5.1 Crowdfunding platform operators that operate a secondary over-the-counter market to facilitate transfers of client's holdings of financings/shares must ensure that only crowdfunding offers hosted and successfully funded through their platforms are permitted to be hosted on the secondary market.

CFP-1.5.2 The secondary market must not consist of an internal matching system which executes client orders on a multilateral basis unless the licensee has obtained approval from the CBB.

CFP-1.5.3 Crowdfunding platform operators that operate a secondary market must ensure that financings or equity securities hosted on the secondary market include all the information that was required to be disclosed in the initial crowdfunding offer and include up to date information on the performance of the borrowers and issuers.

CFP-1.5.4 Crowdfunding platform operators must have in place mechanisms to transfer ownership of issuer shares in a timely manner through the use of third-party registrars where relevant.



MODULE	CFP: Crowdfunding Platform Operators
CHAPTER	CFP-1: Operating Requirements

CFP-1.6 Other Operating Requirements

CFP-1.6.1

A financing-based crowdfunding platform operator must become a member of the Bahrain Credit Reference Bureau.

CFP-1.6.2

Crowdfunding platform operators must ensure that the terms and conditions for the arrangements between the relevant parties to the crowdfunding offer are legally enforceable. Such terms must include the following details:

- (a) For financing-based crowdfunding offers, details of the borrowing, tenor, terms of repayment, the nature and frequency of reporting of performance by the borrower to the lender;
- (b) For equity-based crowdfunding offers, the amount of shares offered, the nature of the shares, and the price;
- (c) The duties, rights and obligations of the crowdfunding platform operator, borrower/issuer and lender/investor, including legal remedies.

CFP-1.6.3

A financing-based crowdfunding platform operator that hosts sharia-compliant financing offers, must ensure that such facilities are based on Sharia-compliant financing contracts such as Murabaha, Ijarah, Salam, Istisna'a, etc. Licensees hosting sharia-compliant facilities must make an arrangement with one independent Sharia Scholar to monitor, review and verify that the crowdfunding transactions, including documentation and structuring are in full compliance with Sharia rules and principles. The Sharia Scholar to be appointed must fulfil the eligibility criteria outlined in the CBB's Sharia Governance Module of Volume 2.

CFP-1.6.4

Crowdfunding platform operators must not host a crowdfunding borrower/issuer that is concurrently hosted on other crowdfunding platforms.



MODULE	CFP: Crowdfunding Platform Operators
CHAPTER	CFP-2: Obligations of the borrower/issuer

CFP-2.1 General Requirements

CFP-2.1.1

Crowdfunding borrowers and issuers must provide the minimum information required in this Section in their crowdfunding offer statements and disclosures provided on the platform. The information must be worded and presented in a ‘clear, concise and effective’ manner and must not be misleading or deceptive.

CFP-2.1.2

The minimum information required in crowdfunding offer statement, includes:

(a) General risk warning about crowdfunding:

1. crowdfunding is risky, companies using this facility include new or rapidly growing ventures and lending or investment in these types of ventures is speculative and carries high risks;
2. you may lose your entire investment, and you should be in a position to bear this risk without undue hardship; and
3. for equity crowdfunding offers: the value of your investment and any return on the investment could be reduced if the company issues more shares. Your investment is unlikely to be liquid which means you are unlikely to be able to sell your shares quickly or at all.

(b) Information about the company (i.e. the borrower or issuer):

1. company details: identity and legal form;
2. business nature and organisational structure;
3. main risks associated with the business, products, industry/sector/geography, legal/regulatory concerns;
4. ownership capital structure;
5. financial statements (audited statements for existing companies required to conduct audit as per local laws, and projected financial statements);
6. key financial ratios;
7. directors and senior managers;
8. contact details; and
9. details of convictions, penalties or administrative actions against the company and its directors or senior managers.



MODULE	CFP: Crowdfunding Platform Operators
CHAPTER	CFP-2: Obligations of the borrower/issuer

CFP-2.1 General Requirements (continued)

(a) Information about the offer:

1. details of the financing facility, interest/profit rates, maturity, payment terms, guarantee/collateral etc. (for financing crowdfunding offers);
2. the rights associated with the shares on offer (e.g. voting and dividends), their custody and registration arrangements and buyback commitments (for equity crowdfunding offers);
3. the offer period, the offer size, the maximum subscription under the offer and the basis for allotment;
4. how the funds raised will be used;
5. Any situations of actual or potential conflict of interest involving the direct and indirect interest of a director, substantial shareholder etc.

(b) Information about investor rights:

1. the right of retail clients to withdraw commitments;
2. the availability of a communication facility on the platform and other methods to contact the company; and
3. the applicable reporting and corporate governance obligations in accordance with the law.

CFP-2.1.3

Crowdfunding borrowers and issuers must also inform the lenders/investors, where relevant, about the use of an SPV for raising the funds and any impact on the lenders/investors rights.

CFP-2.1.4

For real estate crowdfunding offers, the following additional information must be disclosed:

- (a) details about the property, including its location and condition, and whether it is currently rented;
- (b) details about the seller's legal title to the property such as whether it is freehold, leasehold and whether the seller is able to sell the property free of any encumbrance;
- (c) whether the property requires renovation or other work before it can be let;
- (d) the independent valuation report on the property;
- (e) the estimated annual charges and expenses relating to the property; and
- (f) the estimated annual rental income on the property.



MODULE	CFP:	Crowdfunding Platform Operators
CHAPTER	CFP-2:	Obligations of the borrower/issuer

CFP-2.1 General Requirements (continued)

CFP-2.1.5 The crowdfunding offers must clearly state that the borrowers/issuers and the information provided have not been reviewed or approved by the CBB.

CFP-2.1.6 The crowdfunding borrowers and issuers must not advertise their crowdfunding offers outside the platform. This requirement does not prevent the borrowers/issuers to refer people to the home page of the platform.

CFP-2.1.7 A crowdfunding issuer that has successfully completed its fundraising exercise on the crowdfunding platform must ensure that there is effective, transparent and regular communication with its crowdfunding participants including providing regular updates on the progress of the business of the issuer and the issuer's financial position.