

## Conventional Financing-Based Crowdfunding Regulations for the Kingdom of Bahrain

### **A. Definition of Regulated ‘Conventional Financing-Based Crowdfunding Business’ (“CFC”):**

- A.1 CFC (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 only raise funds for borrowers based in the Kingdom of Bahrain.

### **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 – Ancillary Service Providers.
- B.2 B2B and P2B lending are not permitted to be undertaken by a CFC Platform Operator.
- 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 & lenders. CFC platform operators are strictly prohibited from providing any advice on deals.
- C.2 CFC Platform Operators (including their shareholders, board members, management) and their close family members must not:
  - i. Contribute any proprietary funding in deals promoted through their platforms.
  - ii. Hold any shares or invest in whatever form, in any of the borrowers (where the borrower is an SME) hosted on their platforms.
  - iii. Provide any financial assistance to lenders, to invest in loans of a borrower, hosted on their platform.
- C.3 CFC Platform Operators must make arrangements with a local retail bank, (who hold the appropriate CBB license), to facilitate transactions.
  - i. All monies raised must be deposited at a licensed retail bank in the Kingdom of Bahrain, whereby an escrow account must be designated for the funds raised by the borrower. The name of the retail bank must be disclosed to the CBB.
  - ii. The CFC Platform Operator must designate a separate escrow account 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 hold full responsibility for checking 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 are liable for demonstrating 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 profile of the borrower, 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. 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.
- C.8 It is the responsibility of the lenders to perform their own creditworthiness assessments on the borrowers.
- 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 Financial Crime 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 and 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>.
- 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.
- C.12 CFC Platform Operators must have a fair dealing policy for excluding a borrower from using the financing-based crowdfunding platform if there is adequate reason to believe that the borrower, in relation to any loan arrangements, has:
- i. Engaged in 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 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.

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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.

- C.15 The CBB has the right to impose additional requirements on certain 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 have adequate financial resources, i.e. they 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 systems etc.).
- C.19 CFC Platform Operators must appoint an MLRO, who must be approved by the CBB (the MLRO function may be combined with any other function, subject to the CBB's approval<sup>3</sup>).
- C.20 CFC Platform Operators must ensure cyber-security at all times including the conduct of 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.

**D. Lending Thresholds:**

- D.1 Under a CFC agreement, the amount of credit provided must be less than or equal to BD 50,000 in aggregate, per borrower, within a 12-month period. Additionally, the tenor of loans under Financing-Based Crowdfunding agreements must not exceed 5 years. The maximum number of lenders per transaction is 100.
- 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 threshold 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 15 calendar days of the closing date of the crowdfunding offer.
- D.4 Where the crowdfunding offer is not fully subscribed but meets the minimum 80% subscription requirement specified in D.3 above, the borrower must contribute the remaining 20%.

**E. Lender and Borrower Definition:**

- E.1 For CFC agreements, the CBB only authorizes P2B crowdfunding, where the lender is an Accredited/ Expert individual and the borrower is a small sized business with paid-up capital not exceeding BD 250,000.

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<sup>3</sup> Must meet the CBB's minimum Training & Competency requirements for the controlled function of an MLRO As outlined in the Training & Competency module of Rulebook Volume 5 for Ancillary Service Providers (yet to be issued).

**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<sup>4</sup>:**

G.1 In cases where a CFC Platform Operator decides to voluntarily exit the business, the CBB must be notified at least six months prior to the closure of business. During this time period the firm must make suitable arrangements with a relevant CBB licensee to run the platform.

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<sup>4</sup> In case a platform operator does not comply with providing the required notice to the CBB with regards to cessation of their business, the CBB has the power to hand over the platform to another existing platform operator, and to take any other necessary actions it sees fit against the exiting platform operator for its non-compliance to the notification requirement.