

**ANCILLARY SERVICE PROVIDERS
GENERAL REQUIREMENTS
MODULE**

CONSULTATION



MODULE	GR: General Requirements
CHAPTER	GR-5A: General Requirements for Financing-Based Crowdfunding Platform Operators

GR-5A.1 General Requirements for Financing-Based Crowdfunding Platform Operators

GR-5A.1.1 A crowdfunding platform operator must become a member of the Bahrain Credit Reference Bureau.

GR-5A.1.2 A crowdfunding platform operator must make arrangements with a local retail bank (which holds the appropriate CBB license) to facilitate transactions, whereby:

- 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; and
- ii. The crowdfunding platform operator must designate an escrow account as an aggregate account for all borrowers. The crowdfunding 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.

GR-5A.1.3 ~~Crowdfunding platform operators must make sure that the lending thresholds and the prescribed tenors for the loans, as prescribed in GR-5A.1.3 to GR-5A.1.6, are all met. The crowdfunding platform operator must undertake a suitability and appropriateness assessment by seeking information from the lender to gauge his knowledge, experience, financial situation (including his ability to bear losses) and risks associated with the lending.~~

GR-5A.1.3A Crowdfunding platform operators must ensure that all crowdfunding offers include at a minimum information on the following:

- a) the borrower's name, registered address, company registration and contact details and his track record;
- b) the purpose of borrowing;
- c) the main risks associated with the borrower's business;
- d) lender obligations and rights;
- e) applicable fees;
- f) the customer complaint procedures and the availability of alternative dispute resolution procedures;
- g) the name/title and contact number of the person designated to handle any queries or complaints; and
- h) the applicable law and legal remedy available.



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GR-5A.1 General Requirements for Financing-Based Crowdfunding Platform Operators (continued)

GR-5A.1.4 Under a crowdfunding agreement, the amount of credit provided must be less than or equal to BD 500,000 in aggregate, per borrower, in any given calendar year, except where, subject to the CBB's prior written approval, 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.

GR-5A.1.5 ~~All lenders intending to participate in a crowdfunding platform must fill out the 'Self Declaration Form' declaring that they meet this requirement. [This Paragraph has been deleted in February 2022].~~

GR-5A.1.6 The minimum subscription to be received in a crowdfunding 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.

GR-5A.1.7 In case of over-subscription, crowdfunding 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.

GR-5A.1.7A ~~The crowdfunding platform operator must ensure that the terms and conditions for the arrangements between the relevant parties to the financing-based crowdfunding are legally enforceable. Such terms must include the details of the borrowing, tenor, terms of repayment, the nature and frequency of reporting of performance by the borrower to the lender and the rights and obligations of the crowdfunding platform operator, borrower and lender, including legal remedies in the case of delinquent loans. The duties, rights, obligations and the roles and responsibilities of each party towards the other must be clearly documented.~~

GR-5A.1.8 ~~The lender in a crowdfunding agreement has to be an accredited investor or an expert investor (as defined in the CBB Rulebook, Volume 4). [This Paragraph has been deleted in February 2022].~~



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GR-5A.1 General Requirements for Financing-Based Crowdfunding Platform Operators (continued)

GR-5A.1.9 Crowdfunding platform operators are responsible to check that a the 'Self-Declaration' form has been signed and submitted by the lenders, prior to investing in borrowings arranged through their ir platform.

GR-5A.1.10 The 'Self-Declaration Form' must include, amongst other things, acknowledgment by the lender of the following: ~~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.~~

- (a) That he has read the terms of the offer carefully in order to understand and assess the risks before making the lending decision;
- (b) That he is exposed to high risk;
- (c) That he will only commit money that he can afford to lose;
- (d) That he may face difficulties in transferring or selling the loan;
- (e) That he is aware that the crowdfunding offer has neither been verified nor approved by the CBB; and
- (f) That he should query any matters where he feels inadequate risk disclosure has been made.

GR-5A.1.11 Crowdfunding platform operators must demonstrate to the CBB that they have devised appropriate consumer protection standards.

GR-5A.1.11A Crowdfunding platform operators must allow persons (whether natural or legal) who commit to a borrower on a crowdfunding platform, a minimum of 48 hours from the time the commitment is made, to withdraw the commitment. No fee or penalty must be charged to such persons if a commitment is withdrawn.



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GR-5A.1 General Requirements for Financing-Based Crowdfunding Platform Operators (continued)

GR-5A.1.12 Crowdfunding platform operator 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 ~~are 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 ~~the governing law and~~ cross-border risks must be provided to the potential lenders.

GR-5A.1.13 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.

GR-5A.1.14 Crowdfunding platform operator must comply with the Financial Crime Module of Rulebook Volume 5 under ‘Common Modules’ with respect to Anti-Money Laundering and Combating the Financing of Terrorism requirements.

GR-5A.1.15 Crowdfunding platform operator 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, including FATCA report.

GR-5A.1.16 The “Standard Lender Form” referred to in Paragraph GR-5A.1.15 shall be provided by the CBB under Part B of Rulebook Volume 5 (Ancillary Service Providers).

GR-5A.1.17 Crowdfunding 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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GR-5A.1 General Requirements for Financing-Based Crowdfunding Platform Operators (continued)

GR-5A.1.18 Crowdfunding 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.

GR-5A.1.19 Crowdfunding 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 **terms of the lending arrangements templates to be specified by the CBB**. The information provided by the Crowdfunding Platform Operators must be clear, fair, relevant and not misleading.

GR-5A.1.20 Crowdfunding 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.

GR-5A.1.21 The CBB has the right to impose additional requirements on Crowdfunding Platform Operators, as and when it deems necessary.

GR-5A.1.22 Crowdfunding platform operators must clearly and publicly disclose their fees, charges and commissions.

GR-5A.1.23 Crowdfunding platform operators must have adequate financial resources to run their business and take on the needed risks.

GR-5A.1.24 Crowdfunding 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.

GR-5A.1.25 Crowdfunding platform operators must ensure cyber-security at all times including conducting IT security penetration testing semi-annually by an independent consultant.



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GR-5A.1 General Requirements for Financing-Based Crowdfunding Platform Operators (continued)

GR-5A.1.26 Crowdfunding platform operators must maintain relevant systems in place for mitigating and managing operational and other risks.

GR-5A.1.27 Crowdfunding 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.

GR-5A.1.28 A crowdfunding platform operator must ensure that its officers, employees and their family members do not carry the following activities through the crowdfunding 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.

GR-5A.1.29 A crowdfunding 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.



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GR-5A.2 Additional Requirements for Shari'a-Compliant Financing – Based Crowdfunding Platform Operators

GR-5A.2.1 In addition to the requirements stipulated in Section GR-5A.1, Shari'a-compliant crowdfunding platform operators must comply with the requirements in this section.

GR-5A.2.2 Financing transactions arranged and introduced through a Shari'a-compliant crowdfunding platform operator must be Shari'a-compliant in nature. This means that the financing must be done based on a Shari'a-compliant financing contract (such as Murabaha, Ijarah, Salam, Istisna'a, etc.).

GR-5A.2.3 Shari'a-compliant crowdfunding platform operators must make arrangements with a local Islamic retail bank (which holds the appropriate CBB license) to facilitate transactions.

GR-5A.2.4 Shari'a-compliant crowdfunding platform operators must make an arrangement with one independent Shari'a Scholar to monitor, review and verify that the crowdfunding transactions, including documentation, structuring, financing as well as other administrative, marketing and operational matters are in full compliance with Shari'a rules and principles. The Shari'a Scholar to be appointed must fulfill the eligibility criteria outlined in the CBB's Shari'a Governance module.

GR-5A.2.5 The name of the Shari'a Scholar appointed, along with his brief profile, must be disclosed to the public.

GR-5A.2.6 For the purpose of Paragraph GR-5A.2.5, the Shari'a-compliant crowdfunding platform operators may use the services of a third party Shari'a advisory firm on an outsourced basis. The name of the outsourced Shari'a advisory firm, along with its credentials, must be disclosed to the public.

GR-5A.2.7 The Fatwa of the Shari'a Scholar/Shari'a Advisory firm, confirming that the crowdfunding transaction is in full compliance with Shari'a rules and principles, must be made available to financiers/investors before the crowdfunding transaction offer in order to enable them to make an informed decision.