

FREQUENTLY-ASKED QUESTIONS

EQUITY CROWDFUNDING FRAMEWORK

(Issued: 15 November 2022)

(Revised: 6 February 2024)

GENERAL

1. How does the SC regulate equity crowdfunding activities in Malaysia?

The SC regulates equity crowdfunding (ECF) activities in Malaysia by registering the ECF operators (ECF operators) as recognised market operators pursuant to the *Guidelines of Recognized Markets* (RMO Guidelines).

The RMO Guidelines, among others, sets out registration requirements and imposes a set of obligations applicable to an ECF operator. Ongoing obligations imposed on an ECF operator include ensuring compliance with disclosure requirements and governance arrangements, carrying out due diligence exercise on prospective issuers planning to use its platform and ensuring investors' monies are properly safeguarded.

2. How does ECF work?

ECF is an online fundraising platform for start-ups or micro, small and medium enterprises (MSMEs) to raise early-stage financing from a group of investors.

Investors who provide financing to the start-up or MSME via ECF will receive equity or shares from the company and will become one of the shareholders of the company. Over time, if the company's business does well, the investor who is now a shareholder will benefit from either the potential dividend paid out by the company; sale of the shares to new investors or if the company becomes eligible to list on the stock exchange.

3. Who can invest through an ECF platform?

ECF investment opportunities are open to all investors. There are three types of investor categories:

Investor Type	Criteria
Retail Investor	Refers to an individual who is not an angel investor or a sophisticated investor.
Angel Investor	Refers to an individual— (a) who is a tax resident in Malaysia; and

	<ul style="list-style-type: none"> (b) whose total net personal assets exceed RM3 million or its equivalent in foreign currencies; or (c) whose gross total annual income is not less than RM180,000 or its equivalent in foreign currencies in the preceding 12 months; or (d) who, jointly with his or her spouse, has a gross total annual income exceeding RM250,000 or its equivalent in foreign currencies in the preceding 12 months.
Sophisticated Investor	<p>Refers to any person who—</p> <ul style="list-style-type: none"> (a) is determined to be a sophisticated investor under the <i>Guidelines on Categories of Sophisticated Investors</i>; or (b) acquires any capital market product or Islamic capital market product offered or traded on a recognized market where the consideration is not less than RM250,000 or its equivalent in foreign currencies for each transaction whether such amount is paid for in cash or otherwise.

ECF represents an additional investment asset class where investors can have the option to diversify their investments beyond the traditional asset classes to suit their goals and risk profile. Remember to ask questions, read all information given carefully, and seek independent financial advice before committing yourself to any investment.

4. Who can raise capital through an ECF platform?

Only locally incorporated companies and limited liability partnerships (excluding exempt private companies) will be allowed to be hosted on an ECF platform as an issuer.

5. Where can I find more information on ECF?

To learn more about the SC's regulatory framework for ECF, please refer to the RMO Guidelines. These Guidelines set out the registration requirements and obligations for the ECF operators.

To know more about the list of registered ECF operators in Malaysia, please refer [HERE](#).





6. Who can be an ECF operator?

An applicant to be registered as an ECF operator must be locally incorporated. The prospective applicant must be able to demonstrate to the SC that it is able to satisfy the relevant criteria as mentioned in the RMO Guidelines.

7. What are the obligations and key regulatory requirements for ECF operator?

In addition to the general obligations as set out in the RMO guidelines, key obligations of an ECF operators are found in Chapters 6 and 13 of the RMO Guidelines.

As the ECF operator plays a critical role in ensuring confidence in the ECF platform, the RMO Guidelines require the ECF operator, among others, to:

	Ensure users' (including both the investors and issuers) compliance with the platform rules.
Carry out due diligence on the potential MSMEs / issuers wanting to fund raise on its platform and may deny an issuer access to its platform if it is of the view that the issuer or the proposed offering is not suitable to be hosted on the platform.	
	Ensure that funds obtained from investors are safeguarded in a trust account maintained by an independent trustee to remit / handle monies until the funding goal is met and appropriate disbursements are made.
Establish systems and controls for maintaining accurate and up-to-date records of investors' monies held to safeguard from conversion or inappropriate use by its officers.	

Notwithstanding the above and other requirements stated in the RMO Guidelines, an ECF operator is also required to comply with other relevant SC guidelines and regulations, including but not limited to:

- [*Guidelines on Prevention of Money Laundering and Terrorism Financing for Reporting Institutions in the Capital Market;*](#)
- [*Guidelines on Management of Cyber Risk;*](#) and
- [*Guidelines on Advertising for Capital Market Products and Related Services.*](#)

8. Is there any additional obligation imposed for the offering of Shariah-compliant equity on ECF platform?

Yes. An ECF operator must also comply with the relevant chapters under Part B of the *Guidelines on Islamic Capital Market Products and Services* for additional requirements relating to the offering of Shariah compliant equity on its platform.

9. Can ECF operators set up a secondary market that will allow ECF investors to sell their equity to interested buyers?

Yes, an ECF operator can offer a secondary market for the trading of the equities / shares raised on its platform, subject to the approval of the SC. The provisions and obligations on secondary market can be found in paragraphs 13.33 to 13.43 of the RMO Guidelines.

10. How can interested applicants apply to be registered as an ECF operator?

Interested applicants should submit their application to the SC. However, do note that applications are currently opened only for an operator who wishes to operate a shariah compliant ECF platform as announced on 31 Oct 2022. The SC will make the relevant announcement for the opening of application of other types of ECF platform. You may also sign up as an aFINity member [HERE](#) to be apprised of developments in this space.

For more information on the ECF operator application process, please visit this link <https://www.sc.com.my/regulation/guidelines/recognizedmarkets> (refer to the RMO Guidelines).

11. How does an issuer raise funds through ECF platform?

A start-up or MSME who raises financing on an ECF platform is referred to as an issuer. When an issuer applies for funding, the ECF operator will evaluate and assess the issuer's eligibility, by among others, assessing its business proposal, conducting background checks on the issuer, assessing the fit and properness of its shareholders/promoters and ensuring all relevant disclosure documents lodged by the issuer are true and accurate.

These factors allow the ECF operator to assess and determine whether the issuer's business proposition meets the eligibility criteria to be hosted on its platform. The issuer's campaign will be hosted on the ECF platform where investors will then select and invest accordingly.

12. How much can an issuer raise on an ECF platform?

An issuer may only raise collectively, a maximum amount of RM20 million through ECF platforms in its lifetime. This amount is excluding the issuer's own capital contribution or any funding obtained through a private placement exercise.

13. Is an issuer allowed to keep the funds raised on an ECF platform if it is less than the target amount?

The concept of 'all or nothing' is applied to the ECF fundraising exercise. In this regard, an issuer must raise the targeted amount from investors, or the campaign is considered unsuccessful. When the ECF campaign is unsuccessful, all monies collected are returned to the investors. A targeted range of fundraising amount (minimum and maximum amount) must be set for each ECF campaign.

14. Is an issuer allowed to keep the funds raised on an ECF platform if it exceeds the target amount?

The issuer is only allowed to keep the funds raised within the targeted range of fundraising amount (minimum and maximum amount). A campaign is considered successful once the targeted amount sought to be raised has been met.

15. Can an issuer raise funds concurrently on multiple ECF platforms?

No. An issuer can only raise funds on one ECF platform at any one time. An issuer may be permitted to be hosted on an ECF platform and peer-to-peer (P2P) platform at the same time, subject to disclosure requirements as may be specified by the platform operators.

16. How does an investor invest through ECF?

The process for investing through an ECF platform may differ from operator to operator depending on the rules set by the ECF operators. In general, upon understanding and analysing the information disclosed by issuers concerning its business, financing purpose, financial information and risk information published on the ECF platform, an investor will then make an informed investment decision on the issuer, including the amount they wish to invest in.

Investors are advised to evaluate and understand investment risks before making any investment decisions. Investing in start-ups and early-stage businesses involves high risks, including loss of investment, illiquidity, lack of dividends and dilution, and it should be done only as part of a diversified portfolio.

17. What are the investment limits for ECF investors?

A person may invest in any issuer hosted on the ECF platform, subject to the following limits:

Investor Type	Investment Limit
Retail investor	Maximum RM5,000 for retail investors for a single investment and, no more than RM50,000 within a 12-month period
Angel investor	Up to RM500,000 for angel investors within 12 months
Sophisticated investor	No investment limit

18. Does SC mandate any cooling-off period for investments made on an ECF platform?

ECF investors are given a six business days cooling-off period, within which they may withdraw the full amount of their investment. In addition, if there is any material adverse change relating to an issuer, the investors must be notified of such change.

19. What information are investors entitled to obtain on an ECF platform?

An ECF operator must make available relevant information on the issuers hosted on its platform. This includes the issuers' key characteristics, business plan, and purpose of fundraising and financial information.

Additionally, the ECF operator is required to disclose information on general risk warnings, appropriate risk disclosure of issuers and display prominently on how its platform facilitates the investor's investment including providing communication channels to permit discussions about issuers hosted on its platform.

Further, all fees, charges and other expenses relating to the investment must be disclosed by the ECF operator.

20. What happens when there is a complaint or dispute regarding the investment?

ECF operators must have in place processes for complaints handling or dispute resolution. Such information must also be made accessible to all investors.

Alternatively, you may lodge your complaint regarding your ECF investment by contacting the Consumer & Investor Office (CIO) of the SC. Please refer [HERE](#) for more information.