

## **FREQUENTLY-ASKED QUESTIONS**

### **PEER-TO-PEER FINANCING FRAMEWORK**

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#### **GENERAL**

#### **1. How does the SC regulate peer-to-peer financing activities in Malaysia?**

The SC regulates peer-to-peer financing (P2P financing) activities in Malaysia by registering the P2P operators as recognized market operators pursuant to the Guidelines on Recognized Markets (RMO Guidelines).

The RMO Guidelines, among others sets out registration requirements and imposes a set of obligations applicable to a P2P operator. Ongoing obligations imposed on a P2P operator include ensuring compliance with disclosure requirements and governance arrangements, having in place an efficient and transparent risk scoring system for issuers and contingency arrangement to ensure business continuity.

#### **2. How does P2P financing work?**

P2P financing is an online financing platform for eligible issuers to raise financing from a group of investors for business or working capital as well as financing of invoices. Via this route, investors provide financing to eligible issuers in return for interest payment and repayment of the principal amount. Essentially, P2P financing allows an eligible issuer to raise financing through the issuance of an investment note to its investors at a predetermined rate of financing. The rate of financing may be repaid in the form of monthly, quarterly or bullet repayments that may include portion of the principal amount and/or interest. The repayment structure and interest may vary depending on the credit assessment of the issuer.

Charges for the services provided by the P2P operators may vary across different platforms.

#### **3. What are the type of P2P financing options available in Malaysia?**

The types of financing available may differ from operator to operator depending on the rules set by the P2P operators. This may include but not limited to invoice financing, micro financing and business financing.

#### 4. Who can invest through a P2P platform?

P2P financing investment opportunities are open to all investors. Anyone can invest in investment notes and Islamic investment notes issued by eligible issuers. Investment limits may be imposed depending on the category of the investor. There are three types of investor categories:

<b>Investor Type</b>	<b>Criteria</b>
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 (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	Refers to any person who— (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.

To know more about the investment limits for P2P investors, kindly refer to the Investors section on page 8 of this FAQ.

P2P financing 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.

#### 5. Who are the 'eligible issuers' that can raise capital through a P2P platform?

Only locally registered sole proprietorships, partnerships, incorporated limited liability partnerships, private limited, unlisted public companies, public-listed companies and their subsidiaries, are eligible to be hosted on a P2P platform as an issuer.

To know more about the limits and obligations, kindly refer to the Issuers section on page 6 of this FAQ.

**6. Where can I find more information on P2P financing?**

To learn more about the SC's regulatory framework for P2P financing, please refer to the [RMO Guidelines](#).

To know more about the list of registered P2P operators in Malaysia, please refer [HERE](#).

## P2P OPERATOR




### 7. Who can be a P2P operator?

An applicant to be registered as a P2P operator must be locally incorporated with a minimum paid-up capital of RM5 million. A 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.

### 8. What are the obligations and key regulatory requirements for a P2P operator?

The obligations of a P2P operator are clearly provided for in Chapter 6 and Chapter 14 of the RMO Guidelines.

As the P2P operator plays a critical role in ensuring confidence in the P2P platform, the RMO Guidelines require the P2P operator, among others—

	<p>Carry out a credit risk assessment of the prospective issuers to be hosted on its platform as well as conducting background checks on the prospective issuers to ensure its fit and properness, verify its business proposition and determine an appropriate credit scoring on the issuer.</p>
<p>Ensure its users' (including both the investors and issuers) compliance with its platform rules and make available all the relevant information to the investors.</p>	
	<p>Ensure that monies obtained from investors and issuers are placed in a third-party trust account until the appropriate disbursements are required to be made. A P2P operator must also have in place processes to manage any default by issuers including using its best endeavours to recover the amount outstanding to investors.</p>

Notwithstanding the above and other requirements stated in the RMO Guidelines, a P2P 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.](#)

**9. Is there any additional obligation imposed for the offering of Islamic investment notes on P2P platform?**

Yes. A P2P operator must also comply with Chapter 38, Part B of the *Guidelines on Islamic Capital Market Products and Services* for additional requirements relating to the offering of Islamic investment notes on its platform.

**10. Can P2P operators set up a secondary market that will allow P2P investors to buy and sell already funded investment notes after the repayment period has begun?**

Yes, a P2P operator can now offer a secondary market for the trading of the investment notes raised on its platform. However, this is subject to the approval of the SC, following the amendments to the RMO Guidelines in April 2020. The new provisions on secondary market can be found in paragraphs 14.34 to 14.43 of the RMO Guidelines.

**11. How can interested applicants apply to be registered as a P2P Operator?**

For more information on the P2P operator application process, please visit this link: <https://www.sc.com.my/regulation/guidelines/recognizedmarkets> (refer to the RMO Guidelines) and SC's announcement dated 31 October 2022.

## **ISSUERS**

### **12. How does an issuer raise funds through P2P platform?**

When an issuer applies for funding, the P2P operator will evaluate the issuer's eligibility, among others, by assessing its capacity to repay through credit history checks and analysis of any alternative data.

These factors allow the P2P operator to assess and assign a risk score to the investment note or Islamic investment note issued by such issuer. Such issuance will then be hosted on the P2P platform where investors will then select and invest accordingly.

### **13. How much can an issuer raise on a P2P platform?**

There is no limit imposed by the SC on the amount of financing to be raised on the P2P platform. However, the amount of financing that may be raised on the P2P platform or the rate of financing will depend on the outcome of the issuer's risk assessment and scoring conducted by the P2P operator.

### **14. Is an issuer allowed to keep the fund raised on P2P platform if it is less than the target amount?**

An issuer is allowed to keep the funds raised on a P2P platform provided that the financing campaign has reached a minimum of 80% of the target amount. The financing campaign is considered unsuccessful when it fails to reach the minimum 80% threshold. The P2P operator is obliged to return the monies to the investors when the campaign is unsuccessful.

Example: Issuer X sought to raise RM100,000 on a P2P platform, but received offers amounting to RM80,000. Issuer X is allowed to retain the RM80,000 as it meets the 80% minimum threshold. However, if the offer received is RM70,000, then the monies will be returned to investors and Issuer X will not get any funding.

### **15. Is an issuer allowed to keep the fund raised on P2P platform if it exceeds the target amount?**

An issuer is not allowed to keep any amount that exceeds the target amount.

Example: Issuer X sought to raise RM100,000 but received offers totalling RM110,000. He can only retain up to RM100,000. The P2P operator will return the additional monies or reject the additional offers, as the case may be, in excess of the target amount, in accordance with its rules.

**16. Can an issuer raise funds concurrently on multiple P2P platforms?**

An issuer can only be hosted concurrently for different financing purposes on multiple P2P platforms. However, the issuer is required to disclose to the P2P operator its intention to seek funding from other P2P operators concurrently.

## INVESTORS

### 17. How does an investor invest through a P2P platform?

The process for investing through a P2P platform may differ from operator to operator depending on the rules set by the operators. In general, upon understanding and analysing the information disclosed by issuers concerning its business, financing purpose, financial information, credit assessment, repayment schedule and risk information published on the P2P platform, an investor will then make an informed investment decision on the issuers, including the amount they wish to invest in.

For example, Issuer X issues an investment note which seeks to raise RM100,000. The investment note is rated "A" with a rate of return 0.5 percent per month for a 12-month period.

Therefore, the investor that chooses to invest in Issuer X in such amount he so decides, he will receive monthly repayments (principal and returns) for the duration of the investment note.

### 18. What are the investment limits for P2P investors?

A person may invest in any issuer hosted on the P2P platform, subject to the following limits:

<b>Investor Type</b>	<b>Investment Limits</b>
Retail Investor	Highly encouraged to limit their investments on any P2P platform to a maximum of RM50,000 at any period of time.  They should be aware and cautious of the risks of investing in investment notes or Islamic investment notes beyond the advised RM50,000 threshold.
Angel Investor	<i>No Investment Limit</i>
Sophisticated Investor	

### 19. Does SC mandate any cooling-off period for investments made on a P2P platform?

The SC does not mandate any cooling-off period for investments made on a P2P platform. However, P2P operators have the discretion to provide a cooling-off period for investors on their platforms.



**20. What information are investors entitled to obtain on a P2P platform?**

The P2P operators must make available relevant information on the issuers. This includes the issuers' key characteristics, business plan, and purpose of fundraising and financial information, including its credit scoring.

Additionally, the P2P operator also has to disclose information on general risk warnings, appropriate risk disclosure of issuers, risk scoring mechanism, criteria for determining a default, processes to manage a default, information on late payment and default rate of issuers hosted.

Further, all fees, charges and other expenses relating to the investment must be disclosed by the P2P operator.

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

A P2P operator 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 P2P financing investment by contacting the Consumer & Investor Office (CIO) of the SC. Please refer [HERE](#) for more information.