



Draft Regulatory Framework for Equity Crowdfunding

A) Introduction

As part of the Capital Market Authority's ("CMA") strategic objectives to develop the capital market, and based on the Capital Market Law issued by Royal Decree No. (M/30), dated 2/6/1424 H, the CMA Board issued its resolution to publish the draft of Regulatory Framework for Equity Crowdfunding ("Draft"), for public consultation for a period of (45) calendar days.

B) Objectives of the Draft and its main elements

The Draft aims to support financial technology innovations in the capital market by setting out a regulatory framework for equity crowdfunding, including determining the required authorisation for capital market institutions to carry it out, and enabling companies that have Financial Technology Experimental Permits to obtain the appropriate authorisation to practice it as a capital market institution, in line with international best practices.

The main elements of the Draft are as follows:

1. Regulating share offering through capital market institutions that are authorised to carry out arranging activities in the course of carrying out securities crowdfunding.
2. Setting the requirements for custody of clients' money received by capital market institutions that are authorised to carry out arranging activities in the course of carrying out securities crowdfunding, and opening and operating investment accounts.

C) Proposed amendments to the Capital Market Institutions Regulations compared with the current provisions:

Capital Market Institutions Regulations			
No.	Current Provisions	Provisions after Proposed Amendments	Clarification
1.	<p>Article 43: Suitability</p> <p>...</p> <p>j. This Article does not apply in the following cases:</p> <p>2) Where the capital market institution offers shares or publically offered debt instrument, or offers or distributes open public low risk investment funds units.</p> <p>...</p>	<p>Article 43: Suitability</p> <p>...</p> <p>j. This Article does not apply in the following cases:</p> <p>2) Where the capital market institution offers shares or publically offered debt instrument, or offers or distributes open public low risk investment funds units, or offer securities through securities crowdfunding platforms.</p> <p>...</p>	<p>The proposed amendments aim to stipulate that the capital market institutions when offering securities through securities crowdfunding platforms are exempt from the provisions of suitability in Article 43 of the Capital Market Institutions Regulations.</p>



Draft Regulatory Framework for Equity Crowdfunding

Capital Market Institutions Regulations			
No.	Current Provisions	Provisions after Proposed Amendments	Clarification
2.	<p>Article 69: Purpose and Scope</p> <p>...</p> <p>c. Clients' money or assets kept in accordance with the provisions of this Part must be through a capital market institution authorised to carry out custody business.</p>	<p>Article 69: Purpose and Scope</p> <p>...</p> <p>c. Clients' money or assets kept in accordance with the provisions of this Part must be through a capital market institution authorised to carry out custody business.</p> <p>d. As an exception from paragraph (c) of this Article, a capital market institution authorised to carry out arranging activity may keep, in accordance with the provisions of this section, clients' money in the course of carrying out securities crowdfunding, provided that it satisfies the two following additional requirements:</p> <p>1) Clients' money kept must not exceed SR 40 million.</p> <p>2) Retail client's money kept must not exceed SR 100,000.</p>	<p>The proposed amendments aim to stipulate the provisions regulating the keeping of clients' money by capital market institutions authorised to carry out arranging activities in the course of carrying out securities crowdfunding.</p>

D) Proposed amendments to the Investment Accounts Instructions compared with the current provisions:

Investment Accounts Instructions			
#	Current Provisions	Provisions after Proposed Amendments	Clarification
1.	<p>Article 1: Preliminary Provisions</p> <p>a. These Instructions aim to regulate the opening and operation of investment accounts by authorised persons licensed to conduct dealing, management, or custody</p>	<p>Article 1: Preliminary Provisions</p> <p>a. These Instructions aim to regulate the opening and operation of investment accounts by capital market institutions when they provide any services related to dealing,</p>	<p>The proposed amendments aim to subject the capital market institutions to the provisions of the Investment Accounts Instructions when providing any services related to investment through securities crowdfunding platforms.</p>



Draft Regulatory Framework for Equity Crowdfunding

Investment Accounts Instructions			
#	Current Provisions	Provisions after Proposed Amendments	Clarification
	activities and define the regulatory and supervisory rules related to investment accounts. ...	management, custody, or investment through securities crowdfunding platforms activities; and define the regulatory and supervisory rules related to investment accounts. ...	
2.	<p>Article 3: Clients Acceptance</p> <p>...</p> <p>b. The authorised person, when accepting any client, must not provide any services related to dealing, managing, or custody activities until signing an investment account opening agreement with such client that contains all the information mentioned in Article (4) of these Instructions.</p> <p>...</p>	<p>Article 3: Clients Acceptance</p> <p>...</p> <p>b. The capital market institution, when accepting any client, must not provide any services related to dealing, managing, custody, or investment through securities crowdfunding platforms activities until signing an Investment Account Opening Agreement with such client that contains all the information mentioned in Article (4) of these Instructions.</p> <p>...</p>	

E) Proposed amendments to the Rules on the Offer of Securities and Continuing Obligations compared with the current provisions:

Rules on the Offer of Securities and Continuing Obligations			
#	Current Provisions	Provisions after Proposed Amendments	Clarification
1.	<p>Article 6: Exempt offer</p> <p>a) Without prejudice to the Securities Business Regulations and the Capital Market Institutions Regulations, an offer shall be exempt from the requirements of these Rules in any of the following cases:</p>	<p>Article 6: Exempt offer</p> <p>a) Without prejudice to the Securities Business Regulations and the Capital Market Institutions Regulations, an offer shall be exempt from the requirements of these Rules in any of the following cases:</p>	The proposed amendments included proposed provisions to regulate share offering by capital market institutions authorised to carry out arranging activities in the course of carrying out securities crowdfunding, including the following:



Draft Regulatory Framework for Equity Crowdfunding

Rules on the Offer of Securities and Continuing Obligations			
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	...	<p>...</p> <p>9) If the offering is made through a capital market institution authorised to carry out arranging activities in the course of carrying out securities crowdfunding, in accordance with the following requirements and conditions:</p> <p>a. The offering shall be for new shares in the issuer, and the issuer shall not use the proceeds of the offering to provide loans or invest in other entities.</p> <p>b. The issuer is not a company whose shares are listed on the Exchange, or a subsidiary of a company whose shares are listed on the Exchange, or any other issuer or other category of issuers as determined by the Authority.</p> <p>c. The total offering of shares of the same class through all securities crowdfunding platforms or a limited offering of the same issuer –during the twelve months following the end of the offering– shall not exceed ten million SR or its equivalent, and that the offering through a securities crowdfunding platform shall not coincide with any other offering for</p>	<ol style="list-style-type: none"> 1. Stipulating the type of offering through securities crowdfunding platforms as an exempt offer under the Rules on the Offer of Securities and Continuing Obligations, and stating its requirements and conditions. 2. Specifying the type of securities that can be offered through securities crowdfunding platforms. 3. Specifying the type of issuers that can offer shares through securities crowdfunding platforms. 4. Specifying the type of clients who are allowed to participate in subscribing to shares offered through securities crowdfunding platforms. 5. Specifying the information that should be available in the share offering document through securities crowdfunding platforms.



Draft Regulatory Framework for Equity Crowdfunding

Rules on the Offer of Securities and Continuing Obligations			
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		<p>the same issuer through another securities crowdfunding platform or a private placement.</p> <p>d. The offering shall be limited to clients registered with the securities crowdfunding platform, and the amount incurred by each retail client's underwriting shall not exceed SAR 25,000 or its equivalent for each offering.</p> <p>e. Retail clients shall not be allowed to participate in subscribing in the shares of an issuer that was not established in the Kingdom.</p> <p>f. The issuer shall prepare an offering document in accordance with the requirements of Annex (*) of these rules, and that the offering document is available to clients registered with the securities crowdfunding platform through the website of the capital market institution at least five days prior the date specified to start the offering.</p> <p>g. The offering period shall not exceed (45) days, and the total proceeds of offering during that period shall not be less than (80%) of the total value of the offering that was disclosed in the</p>	



Draft Regulatory Framework for Equity Crowdfunding

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		<p>offering document. In the event that the offering is not completed, the capital market institutions must return the subscription amounts to the subscribers – without imposing any fees– within a period not exceeding (5) days from the end of the offering period.</p> <p>h. The capital market institution shall allow its client who has subscribed to cancel his subscription within (48) hours from the time of submitting the subscription application, and the capital market institution shall inform its client who has subscribed in the offered shares – immediately and without delay– of the completion of the offering or its cancellation and when its shares are registered in the issuer’s shareholders register.</p> <p>i. If a material change occurred to the offering document prior to the start of the offering or after the start of the offering and before its end, the issuer must notify the capital market institution as soon as it becomes aware of such change. In this case, the capital market institution may, at its discretion,</p>	



Draft Regulatory Framework for Equity Crowdfunding

Rules on the Offer of Securities and Continuing Obligations			
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		request the issuer to resubmit the offering document, and it may also re-impose the five-day period stipulated in subparagraph (f/9) of paragraph (a) of this Article. The capital market institution must notify its client who has subscribed in the offered shares immediately and without delay of that change, and the client who subscribed before being notified of that change has the right to cancel or amend his subscription before the end of the offering period.	
2.	<p>Article 6: Exempt offer</p> <p>...</p> <p>b) The offeror or the Capital Market Institution (if the offer is carried out through a Capital Market Institution) shall, when making an exempt offer, notify the Authority on a quarterly basis of the total number and value of the exempt offers the Capital Market Institution has made. In addition, the following information must be submitted to the Authority in respect of each exempt offer:</p> <p>...</p>	<p>Article 6: Exempt offer</p> <p>...</p> <p>b) The offeror or the Capital Market Institution (if the offer is carried out through a Capital Market Institution) shall, when making an exempt offer, notify the Authority on a quarterly basis of the total number and value of the exempt offers the Capital Market Institution has made. In addition, the following information must be submitted to the Authority in respect of each exempt offer:</p> <p>...</p> <p>11) Information of clients who subscribed in shares if the offering was in accordance with subparagraph (9) of paragraph (a) of this Article, with a statement</p>	<p>The proposed amendments aim to set out the requirements for the quarterly notification submitted to the Authority regarding offerings through securities crowdfunding platforms.</p>



Draft Regulatory Framework for Equity Crowdfunding

Rules on the Offer of Securities and Continuing Obligations			
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		of any contravention of the requirements and conditions imposed therein (if any).	
3.	Article 6: Exempt offer ...	Article 6: Exempt offer ... d) A person (referred to as a “transferor”) who has acquired shares pursuant to subparagraph (9) of paragraph (a) of this article, may not offer or sell such shares to any person (referred to as a “transferee”) unless the offer or sale is made through a Capital Market Institution and where one of the following requirements is met: 1) the price to be paid for the shares does not exceed 25 thousand SR or an equivalent amount; 2) the shares are offered or sold to an investor under the categories of Institutional and Qualified Clients; 3) the shares are being offered or sold in such other circumstances as the Authority may prescribe for these purposes. e) If the requirement in subparagraph (1) of paragraph (d) of this Article cannot be fulfilled because the price of the shares being offered or sold to the transferee has increased since the date of the original offering, the transferor may offer or sell shares to the transferee if their purchase price during	The proposed amendments aim to regulate the secondary market activity for shares offered through securities crowdfunding platforms.



Draft Regulatory Framework for Equity Crowdfunding

Rules on the Offer of Securities and Continuing Obligations			
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		<p>the period of the original offering did not exceed 25 thousand SR or an equivalent amount.</p> <p>f) If the requirement in paragraph (e) of this Article cannot be fulfilled, a transferor may offer or sell the shares if he sells his entire holding of such shares to one transferee.</p> <p>g) The provisions of paragraphs (d), (e) and (f) of this Article shall apply to all subsequent transferees of such shares.</p> <p>h) The restrictions in paragraphs (d), (e), (f), and (g) of this Article shall cease to apply upon approval of listing on the Exchange of shares of the same class as the shares that are subject to such restrictions.</p>	
4.	-	<p>Part 11: Annexes</p> <p>ANNEX (*): Contents of the offering document for offering shares through securities crowdfunding</p> <p>An offering document for offering shares through securities crowdfunding must contain all material information related to the issuer, and disclose the same in a fair and non-misleading manner, in a way that enables the investor to understand the nature of the offering and arrive at an informed investment decision, and must contain the following information at a minimum:</p> <p>1. Offer summary:</p> <p>This section must include a disclaimer to the targeted</p>	<p>The proposed annex aims to set out the minimum information that must be included in the share offering document through securities crowdfunding platforms.</p>



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		<p>investors on the importance of reading the offering document prior to making an investment decision and include the following information at a minimum:</p> <ol style="list-style-type: none"> a. The name of the issuer, its principal place of registration and the address of its principal place of the business, in addition to the number and classes of shares to be offered; b. the capital of the issuer; c. issuer's total number of shares; d. the nominal value per share; e. offer period and conditions; f. the total number of offered shares; g. the offer price (in SR) h. the total value of the offer; (SR) i. the use of the proceeds; j. The number and categories of offerees. k. The number and types of securities previously issued by the issuer within the past 12 months; l. The minimum amount (if any) to be paid by each offeree; <p>2. Procedures of Incomplete Offer</p> <p>This section must include procedures to be taken by</p>	



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Rules on the Offer of Securities and Continuing Obligations			
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		<p>the issuer in case the offer is not completed.</p> <p>3. The issuer's audited financial statements for the last fiscal year –if any–.</p> <p>4. Issuer's business plan and summary of financial information: This section must include a summary of the issuer's business plan and key financial information contained in the offering document, including financial forecasts and assumptions based thereon, financial position, cash flows and key indicators of the issuer's financial and operating performance.</p> <p>5. share pricing mechanism: This section must include the mechanism by which the price of the shares that are the subject of this offering document was determined.</p> <p>6. expenses: This section must include details of the aggregate offer expenses.</p> <p>7. Ownership structure pre- and post-offering</p> <p>8. Businesses involving related parties or conflict of interest.</p> <p>9. Investment risks and existing fundamental lawsuits and their impact on the issuer's businesses.</p> <p>10. Capital Market Institutions Letter: The issuer must obtain a consent letter from the</p>	



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		<p>Capital Market Institution to the use of its name, logo, and statement in the offering document; the issuer must also enclose within the offering document a confirmation by the Capital Market Institution as follows (to be provided on the Capital Market Institution' letterhead):</p> <p>“We ____ (insert name of capital market institution) confirm, to the best of our knowledge, and through conducting due diligence and making enquiries of the issuer and its board of directors, that the issuer has satisfied all conditions required for the offer of shares through securities crowdfunding in accordance with the requirements of the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority (the “Authority”). We further confirm that the issuer has –to the best of our knowledge and within our capacity– provided all required information and clarifications within this document in accordance with the requirements of the Rules on the Offer of Securities and Continuing Obligations. In particular, we confirm that we have taken reasonable steps to ensure that the directors of the issuer understand the nature and extent of their responsibilities under the</p>	



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		<p>Capital Market Law and its Implementing Regulations, and that we have reached a reasonable opinion, based on due enquiry and professional experience, that the issuer has satisfied all relevant requirements and has disclosed all required information under the Rules on the Offer of Securities and Continuing Obligations.”</p> <p>The offering document must contain the following statement:</p> <p>“This document may only be distributed in the Kingdom to clients registered with the securities crowdfunding platform at the capital market institution. The directors, whose names appear within this offering document, collectively and individually accept full responsibility for the accuracy of the information contained in this offering document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which from this document would make any statement herein misleading. The Capital Market Authority does not make any representation as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. Prospective purchasers of the shares offered hereby should</p>	



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		conduct their own due diligence on the accuracy of the information relating to the offered shares. If you do not understand the contents of this document, you should consult an authorised financial advisor. Investment in the offered shares entails high risks, and may only suit investors capable of assessing the benefits and risks of this investment and bear any losses that may result therefrom, which may extend to the loss of entire investment amount.”	

F) Proposed amendments to the Glossary of Defined Terms Used in The Regulations and Rules of the Capital Market Authority compared with the current provisions:

Glossary of Defined Terms Used in The Regulations and Rules of the Capital Market Authority			
#	Current Provisions	Provisions after Proposed Amendments	Clarification
1.	-	Securities Crowdfunding: Offering securities through a securities crowdfunding platform to the subscribers of that platform, by a capital market institution authorised to carry out arranging activity.	The proposed amendment aims to add a definition of the term “Securities Crowdfunding” in the Glossary of Defined Terms Used in The Regulations and Rules of the Capital Market Authority.
2.	-	Securities Crowdfunding Platform: An electronic platform for securities crowdfunding at a capital market institution authorised to carry out arranging activity.	The proposed amendment aims to add a definition of the term “Securities Crowdfunding Platform” in the Glossary of Defined Terms Used in The Regulations and Rules of the Capital Market Authority.