

Launching of Regulatory Framework on Crowdfunding

Speech of Mr Dhanesswurnath THAKOOR
Chief Executive, Financial Services Commission
25 November 2021

The Honourable Mahen Kumar SEERUTTUN, Minister of Financial Services and Good Governance,

Mr Mardayah KONA YERUKUNONDU, Chairperson of the Financial Services Commission and First Deputy Governor of the Bank of Mauritius,

Mr Rajeshsharma RAMLOLL SC, Solicitor General and Vice Chairperson of the Financial Services Commission, currently following us virtually.

Mr Sarwansingh PURMESSUR, Permanent Secretary of the Ministry of Financial Services and Good Governance and Board member of the Financial Services Commission,

Board members of the Financial Services Commission,

Representatives of the Industry,

Members of the Press,

Distinguished Guests,

Ladies and Gentlemen,

All protocols observed.

I wish you all a very good afternoon.

It is with great honour and pleasure that I welcome you at the FSC House for the launch ceremony of the regulatory framework on Crowdfunding. I am pleased to highlight that in addition to this audience, we also have over 230 participants who are following the event virtually through our live streaming today, including 83 from 36 countries.

This new regulatory framework has been developed in close collaboration with our industry stakeholders. It is also closely aligned with the FSC's Fintech Strategy to foster an increased access and adoption of digital financial services in Mauritius.

Ladies and Gentlemen,

Innovation in financial services and the emergence of Fintech as we see it today, is the result of the convergence of a number of factors namely change in the marketplace, change in the behaviour of the customer, and change in the channel of transmission of goods and services.

It has now become a trend that we are likely to find more people on social media than for instance in a mall. At the same time, we find that people are more inclined to favour goods and services that are available at their fingertips using a mobile phone for instance, rather than going physically to a market. Fintech makes this match-making between demand and innovative services possible. Fintech, therefore, is here to stay and will be visible whether as a stand-alone product or embedded in services in the future.

According to a report on the Future of Financial Services by the World Economic Forum, innovation in financial services will take place where there is the greatest probability of having customers and the largest profit pools. The report further recommends that regulators will need to collaborate with the new entrants to understand how innovations alter the risk profile of the industry. The same report also mentions that, capital raising is one of the 6 core functions that will bring innovation in financial services in the future and, it is anticipated that, Crowdfunding platforms will widen access to capital raising activities making the overall ecosystem richer.

We believe that crowdfunding will become a key element to our financial ecosystem. According to a discussion paper entitled "*Digitalisation and its Impact on SME Finance in Sub-Saharan Africa*", published by the German Development Institute in February 2020, while SMEs are pivotal for inclusive economic development, they suffer disproportionately from institutional and market failures, especially from constrained access to external finance.

Crowdfunding as an alternative lending platform is increasingly attracting attention, due to its potential to provide a marketplace for individual investors to directly discover investment opportunities.

Ladies and Gentlemen,

In 2020, the volume of funds raised through crowdfunding platforms worldwide amounted to 114 billion U.S. dollars. The US and the UK are leading in terms of global market share and 40% of crowdfunding investments are focused on businesses and entrepreneurship.

In recognition of this trend, we at the FSC, are constantly looking to establish sound regulatory frameworks, without stifling innovation. In this respect, last year, we came with the Peer-to-Peer lending rules for which we have 2 operators already licenced, and today, we are launching the new regulatory framework for Crowdfunding. It is our strong belief that the two regulatory frameworks will complement each other in fostering innovation and facilitating access to finance to entrepreneurs and SMEs.

It has been observed that in countries where Crowdfunding has been setup, there is a gradual shift of small loans from traditional institutions towards this form of financing. We hope that this also takes place in Mauritius and will help to professionalise the sector.

Ladies and Gentlemen,

Before I delve into some of the key features of our Crowdfunding rules, please allow me to clarify which type of crowdfunding we are referring to. You may be aware that crowdfunding is grouped mainly in 4 types, namely:

1. *Donation-based*, where a donor contracts to support charitable or social projects without any financial reward;
2. *Reward-based*, which comes in the form of a purchase contract for specific products or ideas;
3. *Debt-based (e.g Peer to Peer lending)*, which is constituted of a loan agreement whereby the capital is repaid plus interest; and
4. *Equity or Investment-based*, which comprises of a shareholding contract towards the purchase of unlisted shares, debentures or other equity-like instruments or revenue sharing, in a project or business.

According to a report entitled "*Crowdfunding in East Africa – Regulation and Policy for Market Development*", issued by the University of Cambridge Centre for Alternative Finance, donation and reward-based crowdfunding are non-financial return models and typically fall outside the purview of financial regulators whereas loan and investment-based crowdfunding models are, typically, regulated financial activities in most countries.

The rules that are being launched today pertain to investment-based Crowdfunding which is the fastest-growing segment of crowdfunding with a worldwide compound annual growth rate of 33.9% between 2016 and 2021. It has, in recent years grown into an excellent way for entrepreneurs and early-stage companies to validate their businesses, find capital, and get the exposure they need to grow.

The development of this new regulatory framework for investment-based Crowdfunding has involved a benchmarking exercise with several foreign jurisdictions such as the UK, Europe, US, Australia and Dubai, amongst others.

Ladies and Gentlemen,

Going back to the salient features of the Rules, the Crowdfunding operator will, as a licensed entity, qualify as a financial institution under the FIAMLA. It will, accordingly, be required to ensure strict adherence with the relevant Regulations, Codes and Guidelines governing AML/CFT in Mauritius. Crowdfunding operators will be required to conduct KYC and other due diligence on issuers and investors, before they can be admitted to the crowdfunding platform.

Moreover, pursuant to the Rules, the crowdfunding operator will be subject to prudential, governance, internal controls, due diligence and disclosure requirements. All these will ensure that the crowdfunding operator will conduct its business in conformity with best international standards and practices, as recommended by the FATF, IOSCO, and other international standard-setting bodies.

The Crowdfunding Rules also require that:

1. The registered office and principal place of business of the Crowdfunding operator to be in Mauritius;
2. Minimum unimpaired stated capital to be of MUR 2 million or equivalent in any other currency;
3. An issuer will be able to raise up to MUR 15 million on a crowdfunding platform over a period of 3 years;
4. Retail investors may invest up to MUR 350,000 on the crowdfunding platform in 1 year and there is no investment limit for expert investors; and
5. The crowdfunding operator will be required to have strategies, policies, and procedures in accordance with principles of sound corporate governance and risk management.

These requirements demonstrate that the FSC has taken all reasonable care to establish a robust regulatory framework to ensure that the interests of stakeholders of crowdfunding platforms are adequately protected.

Ladies and gentlemen,

On a concluding note, I wish to highlight that our Fintech journey does not stop here. The last National Budget contained several key measures, such as the establishment of Fintech innovation hubs and digital labs, on which the FSC is also currently working together with the Bank of Mauritius. We have, at the Commission, also signed Fintech MOUs with a number of well-developed countries (like France, Canada, amongst others) to further promote our collaborative agenda and actions with respect to Fintech and innovation. I wish to share that our Fintech activities have caught the attention of our foreign counterparts and in that context, I was recently requested to make a presentation on our FSC One Platform to our Canadian counterpart during their Fintech week.

Further, we are considering to tap into SupTech/RegTech opportunities with a view to developing and consolidating our image as a leading, innovative and data-centred regulator within the region.

The Commission is unflinchingly committed to ensure that our Fintech roadmap is steadily implemented in line with the Government's vision to position Mauritius as a competitive Fintech Hub for Africa and beyond.

With these words, ladies and gentlemen, I thank you for your kind attention.

Dhanesswurnath Thakoor

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