

Decision Number 3

Crowdfunding

The Chairman of the Capital Markets Authority (CMA) / Governor of Banque du Liban (BDL),

Pursuant to Law No. 161 dated 8.17.2011 on Capital Markets,

Pursuant to the Decision of the Council of the Capital Markets Authority, adopted in its meeting held on 05.28.2013,

Declares the following,

Article 1: For the purpose of implementing this Decision, the terms hereunder shall have the meanings ascribed to them below:

"Crowdfunding": Any activity directed towards the general public aimed at funding small and medium enterprises (SME) or startup companies through public "investments" in various "equities or shares" in these "Companies" offered by a particular "Institution".

"Institution": An institution specialized in providing "crowdfunding" services conducted through a crowdfunding electronic platform organized and managed by the "Institution" itself.

"Company or Companies": Small and medium enterprises (SME)/companies or startup companies seeking funding through "crowdfunding" by offering some of their "equities or shares" to the public. The minimum capital raised by the "Companies" should be 30,000,000 LBP (thirty million LBP) or \$ US 20,000 (twenty thousand U.S. dollars) or an equivalent amount in Arab and foreign currencies.

"Equities and Shares": The equities or shares of a "Company" offered to the "investors" through "crowdfunding", either directly or by subscribing to the equities or shares of a "Legal Entity"- acceptable to the CMA.

"Legal Entity": Investment fund, Investment Company or any Special Purpose Vehicle whose operations are limited to the acquisition of the "Company's" "equities or shares".



"Investment": Placements in specific "equities or shares" through the payment of a certain amount of money. The minimum value of a single "investment" shall not be less than 750,000 LBP (seven hundred and fifty thousand LBP) or US \$ 500 (five hundred U.S. dollars) or an equivalent amount in Arab and foreign currencies.

The maximum value of every direct or indirect placement of a single investor in a "company" shall not exceed 15,000,000 (fifteen million LBP) or US \$ 10,000 (ten thousand U.S dollars) or an equivalent amount in Arab and foreign currencies.

"Investor or Investors": A natural or legal person "investing" through "crowdfunding".

"Escrow Account": An independent bank account opened in the name of the "Institution" for each "crowdfunding" operation, held in escrow with a bank operating in Lebanon and whose release is contingent on the fulfillment of either one of the conditions below:

- The aggregate capital raised reaches the target capital
- The expiration of a specific period of time that should not exceed one hundred eighty days

Article 2: 'Crowdfunding' services may be exclusively provided under the conditions, rules and regulations set forth herein by the following entities:

- 1- Lebanese institutions established as joint-stock companies whose main objective is to provide "crowdfunding" services provided that their capital is not less than one billion LBP to be reconstituted within a maximum of six months should the capital suffer any losses exceeding 25% of its value.
- 2- Foreign "crowdfunding" companies by opening a branch in Lebanon and allocating one billion Lebanese Pounds for their activities in Lebanon.

Article 3: The licensing request to establish a Lebanese institution whose basic purpose is to provide "crowdfunding" services or to establish a branch in Lebanon of a foreign "crowdfunding" institution shall be submitted to the CMA in two stages accompanied with the following documents:

First: Stage I:

- A. Documents identifying the founders, the subscribers and the persons expected to be assigned senior management functions (certified copy of individual record, national identity card or



passport for natural persons, or a copy of the registration file in the Commercial Registry- if any of the founders or shareholders is an entity).

- B. Statements signed by all of the abovementioned natural persons including their curriculum vitae (education, experience and other information) and a detailed assessment of their financial condition.
- C. A judicial record of each natural person not more than three months old.
- D. A statement containing the percentages of each shareholder's capital shareholding.
- E. The draft articles of association/bylaws of the Lebanese 'institution' and the proposed management structure (duly certified articles of association/bylaws of the foreign company).
- F. A feasibility study related to the establishment of the "Institution" covering the period of the coming three years and including in details the sources of financing, statement of expected profits and losses, prospective budgets and prospective cash flow (as for a foreign company: the feasibility study, audited annual reports of its business during the last three years along with its budget and the profit and loss statement of these years).
- G. A statement showing the framework of any commitment, whether direct or indirect, if any, between the "Institution" to be established and a specific economic institution/group/groups in Lebanon or abroad.

Second: Stage II

After obtaining the approval of the CMA, the requesting 'institution' shall complete the procedures of its establishment within a period not exceeding six months from the date it is informed of such approval, subject to its cancellation, following which it shall submit a request to obtain an approval to commence its operation from the CMA along with the following documents:

Administrative documents

- A. The registration Certificate with the commercial registry and a copy of the duly registered articles of association/ bylaws of the "Institution", (as for the foreign "Institution", duly certified Registration Certificate in the country of origin).
- B. Bank Statement from one of the banks operating in Lebanon showing that the capital of the "Institution" is fully issued and paid up or as to a foreign branch, a bank statement from a bank operating in Lebanon that the required amount has been allocated for the branch's operation in Lebanon.
- C. (1) A list, signed by the Chairman of the Board, of the full names and nationalities of the Chairman and members of the Board of Directors of the current year, major shareholders, the General Manager assisting the Chairman, the directors and assistant directors (2) in addition to a recent judicial record no more than three months old of the board members, directors and controllers (3) as well as the minutes of the constitutive general assembly of shareholders.
As for the foreign "Institution", a duly certified Board of Directors resolution whereby the Board granted its approval to open the branch in Lebanon, appointed its representative in the branch and determined his functions as well as, if applicable, selected the persons who are expected to hold senior management positions.



Documents on Work Organization

- A. Job descriptions of all the employees of the "Institution"
- B. The electronic platform operations' materials and user manual
- C. Information back-up and saving measures
- D. Anti-fraud measures.
- E. Anti-money laundering and terrorism financing countering measures.
- F. Measures that allow inquiry on the "Company" whose shares are being offered for subscription
- G. Measures that allow examination of the "investors" wishing to subscribe in the "equities or shares"
- H. The contingency and follow-up plan for the "Institution's" operations and information system
- I. Standards organizing monitoring and internal control
- J. Personal information protection and professional confidentiality mechanisms.
- K. An express agreement between the concerned parties providing for the acceptance of the electronic signature and use of a personal identification code
- L. The code of conduct

Documents on Technical Rules and Electronic Systems

The "Institution" shall abide by the technical rules and procedures set forth in Annex (1) of this Decision (attached herewith) / and provide the CMA with the documents related to the technical rules to be adopted which show that the "Institution" has an effective electronic system in place. These documents should include at least the following:

- A. The information system components specifically the hardware, operating systems, software and network...
- B. System protection software (Antispam, Antivirus, Firewalls...)
- C. Encryption measures
- D. "Investors'" protection procedures when logging in (Log in access) including Authentication Procedure

Article 4: Upon the finalization of the establishment procedures of the 'institution', the Capital Markets Supervisory Unit shall verify the satisfaction of all the conditions stated in the second paragraph of article three above.

Article 5: After obtaining the approval of the CMA to commence its operations, the "Institution" shall begin its business operations within a period not exceeding six months from the date it was informed of this Decision under penalty of having its license revoked should it fail to do so.



Article 6: The "Institution" shall undertake the following:

- A. Cooperate to facilitate the CMA's monitoring functions including technological monitoring of the "institution's" operations.
- B. Provide the CMA with all the required documents as per this Decision including any amendments thereto.
- C. Prepare quarterly reports on its operations, technical, organizational and financial conditions and provide the CMA with a copy of such reports.
- D. Request that the external auditors prepare annual reports and provide the CMA with a copy.
- E. Clarify explicitly and in writing to the "investor", against an acknowledgment of receipt, that the "Institution" does not bear any responsibility or liability for any misstatements provided by the "Companies" and made available to the "Investor" by the "Institution", except in case of intended negligence or gross error. The "Institution" shall also clarify that the CMA does not bear any responsibility for the content of such information

Article 7: The "Institution" is prohibited from:

- A. Providing any advice of any kind to the "Investor" or the "Company", as its role is limited to facilitating the process of securing the necessary crowdfunding for investment.
- B. Receive deposits of any kind whatsoever.
- C. Use the electronic platform to offer any financial products or derivatives to the public other than "equities and shares".
- D. Trade directly or indirectly in "equities and shares" on the electronic platform designed to provide "crowdfunding" service.

Article 8: The "Institution" shall ensure that all the "Companies" comply with the following before granting them access to the electronic platform:

- 1- Submitting the following documents
 - A. A list signed by the Chairman of the Board including the full names and nationality of each of the Chairman, members of the Board of Directors of the current year, major shareholders, the General Manager assisting the Chairman, the directors and assistant directors. A recent judicial record of no more than three months old for each of the board members, directors and auditors.
 - B. The articles of association/ bylaws of the "Company" and the proposed administrative structure to be adopted (duly certified articles of association/ bylaws of the foreign company).
 - C. Registration Certificate in the Commercial Registry and a copy of the duly registered articles of association/ bylaws of the "Company" (as for a foreign "Company", a duly certified Registration Certificate from the country of origin).



- D. Audited financial statements, if available.
- 2- Preparing a feasibility study covering the period of the next three years and including a statement in details of the anticipated profits and losses, anticipated budgets, and anticipated cash flow.
 - 3- Preparing a term sheet to be presented to the "Investor" at the "Company's" full risk, including at least the following:
 - A. Determine the value of the capital to be crowded and the number of offered "equities or shares".
 - B. Identify the basic terms of investment particularly the minimum threshold of "investment".
 - C. Clearly determine if the investment would be through direct subscription or via a "legal entity".
 - D. A summary of all possible risks to which an "investor" can be exposed.
 - E. An explicit provision clarifying that the "Institution" and the "CMA" are unconnected to the content of the term sheet.
 - 4- Submit the following, should the "crowdfunding" be conducted by subscription to a "Legal Entity" :
 - A. The "Legal Entity" bylaws
 - B. A duly certified true copy of a statement issued by the competent authorities in the country of origin stipulating that the "Legal Entity" has acquired the required license.
 - 5- Prepare an investment agreement to be signed with the "investor" that should include all the details regarding the terms of subscription in the "equities and shares".

Article 9: Placements in "equities and shares" shall be made by depositing a sum of money in cash in an "escrow account" in one of the banks operating in Lebanon until the acquisition of the "equities or shares" under the investment agreement provided in Article 8 of this Decision.

The 'investors' funds deposited in the 'escrow' account may not be frozen for a period exceeding one hundred and eighty days. During this period, the monies shall either be used to fully subscribe in the 'equities and shares' once the value of the targeted capital is reached, or shall be returned to the "investor" with accrued interest, unless otherwise agreed by the parties with respect to the interest, if the abovementioned period lapses without completion of the targeted capital.

The 'institution's' role towards the 'investor' shall cease upon the expiration of this stage of 'investment'. All banks operating in Lebanon shall provide the CMA with a semi-annual report on the outcomes of the abovementioned "escrow accounts".

Article 10: All "Crowdfunding" phases may be completed by using electronic means.

Article 11: Notwithstanding any other provision, the provisions of the Lebanese Commercial Code shall apply to the commercial 'companies' established in Lebanon, particularly in connection with the obligations related to subscription and publications.



Article 12: The CMA is entitled to determine, as the case may be, if the "legal entity" set forth in this Decision is a collective investment vehicle as provided for in Law No. 706 dated 9.12.2005 (related to Collective Investment Vehicles) and thus whether or not it is subject to the provisions of the aforesaid law.

Article 13: Whoever violates the provisions of this Decision shall be subject to the administrative sanctions set forth in the laws and regulations in force.

Article 14: The "Institution" shall pay the fees determined by the CMA as follows:

- 1 - Upon the submission of the application
- 2 - Annually to maintain the license.

Article 15: This Decision comes into force upon its publication in the Official Gazette

Beirut, June 11, 2013
Chairman of the Capital Markets
Authority / Governor of Banque du
Liban,

Riad Toufic Salameh
(Signature)

Annex 1

Technical Rules and Procedures to be followed by the "Institution"

1. Databases

- A - If hosted in a leased facility, databases should be installed on wholly-owned or leased equipment.
- B - The databases should not be stored in any form of shared cloud computing

2. Platform

- A. The platform should be installed on servers, wholly owned or leased by the "Institution"; additionally, the "Institution's" databases can share the server(s) with other software applications affiliated to the "institution" including white label products platforms.
- B. If the platform is placed on a leased facility administered by a managed hosting, then the standards of qualifications, experience, solvency and integrity should be taken into consideration when selecting a service provider.
- C. All credit card data and personal accounts data, including addresses, phone numbers, e-mail addresses, and any other information in all databases and backup files available in distributed computing system, if available, should be encrypted.



- D. A backup copy must be saved at least once a day by the system administrators. Backup files must be stored on separate devices other than the devices containing the database files.
- E. The agreements concluded with companies to outsource IT Functions shall include provisions that allow the supervisory authorities to review information maintained with the herein mentioned outsourcing companies.
- F. A comprehensive contingency plan should be developed and put on standby, along with all the needed documents that detail its implementation and procedures, and should be periodically tested to ensure accuracy and efficiency in all types of emergencies.
- G. The contingency plan adopted by the "Institution" should include all processing solutions required in case the company, which has been outsourced some of the IT functions, stops providing the required services.
- H. The "Institution" should use tools or programs to avoid IP addresses' falsification through proxy services so as to ensure that the users are unable to falsify or spoof their IP addresses.