



November 24, 2017

## **SEC TO ISSUE RULES GOVERNING CROWDFUNDING**

The Securities and Exchange Commission on November 21, 2017, authorized its Markets and Securities Regulation Department to disseminate **for public comment** the proposed ***SEC Rules and Regulations Governing Crowdfunding***.

This is in response to recent financial innovation of raising funds for a venture of projects or start-ups performed through internet platforms.

Crowdfunding generally refers to a method of fundraising whereby money is sourced from a large number of individuals usually through an online platform. This method allows investors to obtain access to investment opportunities and enables business start-ups and small and medium-sized enterprises (SMEs) to access a new source of funding for their investment and operations through the internet.

Typically, the crowdfunding model involves three **parties**:

1. The entrepreneur (or the project initiator): The individual who proposes the business or the project;
2. The supporters: Individuals or groups of individuals, who are willing to fund or support the idea or the project and;
3. The platform (or a moderating organization): A virtual marketplace that brings the parties together for launching the project.

Supporters of the idea or project make their contributions or donations via online platforms. Thereafter, the platforms coordinate and administer the fundraising activities.

Generally, there are four (4) identified **forms** of crowdfunding:

- a) Donation-based crowdfunding: individuals pool their resources to support a charitable cause;

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b) Reward-based crowdfunding: individuals give money to a company in return for a “reward”, usually a product produced by the company;

c) Lending-based crowdfunding: individuals lend money to a company and receive the company’s legally-binding commitment to repay the loan at pre-determined time intervals and interest rate; and

d) Equity-based crowdfunding: individuals invest in shares sold by a company and receive a share of the profits in the form of a dividend or profit distribution, subject to the company’s discretion.

**The SEC proposed rules will govern lending-based and equity-based (securities-based) crowdfunding.**

### **Features of the draft SEC Crowdfunding Rules**

The Rules Governing Crowdfunding (CF) Market will:

Require registration and full disclosure of the issuer, intermediary (e.g. registered persons, funding portal), and platform: *Disclosure Requirements for Issuers; General Requirements for Intermediaries; Registration of Funding Portals*

Provide threshold as to the amount of funding to be raised thru crowdfunding: *Total of PhP 10 million within a 12-month period.*

Provide prohibitions on advertising terms of offering: *Prohibition on Advertising Terms of Offering.*

Provide measures to reduce risk of fraud and manipulation: *Measures to Reduce Risk of Fraud; Requirements with Respect to Transactions; Conditional Safe Harbor.*

Restrict access to qualified investors: *Investor Qualification.*

Provide instructions on the provision and educational materials to investors: *Educational Materials.*

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Provide instructions on maintenance and transmission of funds: *Maintenance and Transmission of Funds.*

Provide instructions on completion of offerings, cancellations and reconfirmations: *Completion of Offerings, Cancellations and Reconfirmations.*

*(The draft SEC Rules and Regulations on Crowdfunding may be accessed via the [sec.gov.ph](http://sec.gov.ph))*

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