

Securities Commission of The Bahamas

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PRESS RELEASE

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Securities Commission Rules to Facilitate Small Business Funding

New Rules under development by the Securities Commission of The Bahamas would allow entrepreneurs to use crowdfunding to raise up to \$1,000,000 and make it easier for small businesses to raise up to \$3,000,000 per year.

Crowdfunding Rules as well as Micro, Small and Medium Enterprise (MSME) Rules are being developed to introduce specific regulations for entrepreneurs to use crowdfunding to raise capital, and to ease access to capital market funding by MSMEs. The Rules are anticipated to facilitate much-needed funding for MSMEs via the capital markets while introducing appropriate mechanisms to protect investors.

The proposed Crowdfunding Rules would allow the general public to participate in crowdfund investment offerings within limitations. They would also require that all equity crowdfund activities are conducted on a platform which is registered with the Commission.

Over the next month, the Commission will engage local broker dealers and other industry experts for input on the draft Rules. The Commission is aiming to submit the Rules to the general public for consultation in early 2017, with a view to having the final Rules come into effect shortly after.

To help protect retail (small and/or unsophisticated) investors, the Crowdfunding Rules would limit the amount such persons could invest to \$500 per crowdfund arrangement, and \$2,500 per year. 'Accredited' investors (investors who meet certain wealth, income, institutional or other requirements as defined in securities laws) would not be limited in the amount they can invest via crowdfunding.

Other investor protection features of the draft Rules include capital requirements for registered platforms and defined disclosure requirements for crowdfunding projects and their initiators, including the amount of capital raised and progress reports on initiatives funded using the crowdfund method.

The Rules being developed and proposed for MSMEs would allow small business operators to raise up to \$3,000,000 per year in the 'Over-the-Counter' (OTC) market without having to file a prospectus with the Commission. Rather, they would be required to file an offering memorandum, which would provide comprehensive information to allow investors to make informed investment decisions. One of the main purposes behind the MSME Rules would be to significantly reduce the costs for small business operators who wish to raise funding for their ventures by directly accessing the capital markets.

To help protect retail investors in MSME offers, the draft Rules would limit the amount of money that such persons could invest to \$1,000 per offering and \$5,000 per year. As is the case for crowdfunding, accredited investors would not be subject to investment limitations under the draft Rules.

MSMEs spur growth, development, and innovation in an economy, and they account for 60% to 70% of jobs in most Organisation for Economic Co-operation and Development (“OECD”) countries¹. However, despite the many benefits MSMEs can bring, they suffer from insufficient funding, with commercial bank options unavailable or very costly, and traditional capital market alternatives also often cost-prohibitive. With the development of these new Rules, the Securities Commission is seeking to facilitate capital access in order to address this funding gap.

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Editor’s Information:

The Securities Commission of The Bahamas (“the Commission”) is a statutory body established in 1995 pursuant to the Securities Board Act, 1995. That Act has since been repealed and replaced by new legislation. The Commission’s mandate is now defined in the Securities Industry Act, 2011 (SIA, 2011). The Commission is responsible for the administration of the SIA, 2011 and the Investment Funds Act, 2003 (the IFA), which provides for the supervision and regulation of the activities of the investment funds, securities and capital markets. The Commission, having been appointed Inspector of Financial and Corporate Services effective 1 January 2008, is also responsible for administering the Financial and Corporate Service Providers Act, 2000.

The Commission is mandated to: advise the Minister on all matters relating to the capital markets and its participants; maintain surveillance over the capital markets and ensure orderly, fair and equitable dealings in securities; foster timely, accurate, fair and efficient disclosure of information to the investing public and the capital markets; protect the integrity of the capital markets against any abuses arising from financial crime, market misconduct and other unfair and improper practices; promote an understanding by the public of the capital markets and its participants and the benefits, risks, and liabilities associated with investing; create and promote conditions that facilitate the orderly development of the capital markets; and perform any other function conferred or imposed on it by securities laws or Parliament.

¹ OECD Paper: Small Business, Job Creation and Growth: Facts, Obstacles and Best Practices, 1997