



## **Crowdfund/SME Financing Seminar**

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### **Remarks**

**Christina Rolle  
Executive Director  
Securities Commission of The Bahamas**

**Thursday 23 March 2017; 9:00 a.m.**

**British Colonial Hilton  
New Providence**

Thank you, Gowon.

Protocol has already been established.

Good morning, all.

The Securities Commission of The Bahamas is honored to co-host this event with the Bahamas Chamber of Commerce and Employer's Confederation. During today's seminar, representative from both the Chamber and the Commission will introduce proposed Business Capital Funding Rules, 2017.

As many of you are aware, the Commission is the statutory body responsible for the oversight of the investment funds, securities, and capital markets in The Bahamas. The Commission is the regulator for the Bahamas International Stock Exchange (also known as BISX). As a part of our mandate, the Commission formulates principles to regulate and govern the securities and capital markets and to ensure that markets are fair and equitable for all participants. Since my appointment as the Executive Director on 26 January 2015, the Commission has held weekly meetings with our registrants and licensees, as well

as other industry and market participants. In these meetings, a consistent theme raised is the difficulty for small and medium business owners to secure funding to realize their business goals. Further, the lament is that the Commission's current securities regulations discourages persons, particularly small businesses, from conducting an Initial Public Offering.

We have listened to your concerns! At our Securities Industry Act briefing in July 2016, I announced that the Commission intended to produce legislation to assist small and medium enterprises in securing funds via the capital markets. It is with great pleasure then, that I introduce the proposed Securities Industry Business Capital Rules, 2017. It is our intent that these Rules will provide a feasible avenue for start-ups and nascent businesses to access capital via the general public and provide other ancillary benefits such as fuel innovation and growth within the Bahamian economy by opening additional investment opportunities for all Bahamians. Of course, the Commission is concerned with the protection of investors and ensuring that the market is fair and equitable with respect to all

securities dealings. Consequently, the Rules will maintain appropriate mechanisms to protect investors such as disclosure requirements for the small businesses and investment limits for certain categories of investors.

The use of Crowdfunding, which is defined as the funding of a project or venture by raising monetary contributions from a large number of people, normally over the internet, has grown exponentially over the past five years as a method by which entrepreneurs seek funding for their businesses. In fact, the World Bank figures show that between 2012 and 2015, proceeds from crowdfunding has risen from 2.7 billion U.S. dollars to 34.4 billion U.S dollars. By 2025, the World Bank estimates that this figure will rise to 96 billion U.S dollars. Other crowdfund data centres are even more optimistic. Dr. Richard Swart, Chief Strategy Officer of NextGen Crowdfunding and lead author and researcher of a World Bank report titled “**Crowdfunding and its Potential Impact for the Developing World**” estimates that the crowdfund market will expand to \$300 billion by 2025.

In response to this exponential growth in the use of crowdfunding, various jurisdictions have implemented legislation to regulate this activity, including Ontario, the United States, and Great Britain. I am happy to report that The Bahamas will soon join this growing list.

The Commission is also aware that certain entrepreneurs may want to raise more than \$1 million. To this end, the Rules would allow small and medium enterprises to raise up to \$3 million in the capital markets and will define for the first time in The Bahamian context, what a small and medium enterprise is.

We believe that, ultimately, the Rules will have tangible positive effects on entrepreneurs and the Bahamian economy.

- Firstly, crowdfunding would potentially afford the entrepreneur the ability to access funds from a large group of people on more favourable terms than can be obtained by the commercial banks. As most of you entrepreneurs are aware, the cost of borrowing from banks can be excessive, especially in this post-2008 economy, primarily due to Basel III (and other) capital requirements. This has

universally caused banks to become more conservative with lending, particularly with businesses that they deem to be of greater risk. This conservative lending philosophy has, by all accounts, led to many ideas not progressing to a tangible business. The Commission opines that “good” projects should be introduced to potential consumers, unrestrained by the willingness or lack thereof, of banks, or any other lending institution, to loan money to support the project. Via the proposed Rules, entrepreneurs will be able to directly access the public and allow them to view the merits of a particular business idea, and decide whether the idea is worth committing funds to.

- Secondly, the Commission recognizes that going directly to the market, via a public offering, can be an impediment to raising funds. Specifically, the costs of underwriter fees, filing a prospectus with the Commissions and securing a talented and independent Directors to serve on a Board may be beyond the financial ability of many small businesses. Moreover, the Commission’s continuing

obligation requirements such as providing audited financial statements, further makes the option of becoming a public company unattractive or unaffordable to entrepreneurs. As will be explained later, the draft Rules would lessen, though not eliminate, some of these requirements, most notably the requirement to file a prospectus with the Commission.

- Thirdly, the Commission hopes that the Rules should spur economic growth and job creation in The Bahamas. It is an often repeated refrain that SMEs are an important aspect in the growth and development of any economy. There is empirical data to support this assertion. A study conducted by the Organisation for Economic Co-operation and Development (the “OECD”) found that SMEs account for 60 to 70 percent of jobs in OECD countries. Furthermore, according to the Australian Securities and Investments Commission, the SME sector employs approximately 70% of the nation's workforce. It is our hope that these new

Rules will bring forth innovation, creativity, development and job growth within the Bahamian economy.

- Finally, these Rules will not take the “crowd” out of crowdfunding. All Bahamian investors, whether non-accredited or accredited will be allowed to participate in both crowdfunding and SME offerings, though it must be noted, the Rules will ensure that retail investors are sufficiently protected and that project initiators are required to disclose certain basic information about the offering that will allow an investor to make an informed decision. Additionally, the amount of the investment in the crowdfund and SME offerings will be limited for non-accredited investors. You will learn more about this as the seminar progresses. It is our hope that this will encourage broader participation, by all Bahamians, in the Bahamian economy and, more importantly, allow small business to secure funding from any person desirous of supporting your venture.

In conclusion, the Commission is proud of this progressive and timely legislation which we believe is competitive with other jurisdictions and affords sufficient opportunities for entrepreneurs of small and medium enterprises to utilize the capital market to fund their business proposals.

We look forward to your considered feedback and trust that the legislation will aid you as you seek to introduce and grow your business.

Thank you