IFSB WORKING PAPER SERIES

WP-28/12/2023

REGULATORY PRACTICES OF PEER-TO-PEER FINANCING AND EQUITY CROWDFUNDING IN ISLAMIC FINANCE

DECEMBER 2023

ISLAMIC FINANCIAL SERVICES BOARD

IFSB WORKING PAPER SERIES

Standards Development and Research Department

WP-28/12/2023

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December 2023

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The authors would like to acknowledge the immense contribution of IFSB Fellow, Mohammed Hamza Ghaouri in the drafting of the paper. This working paper has benefited greatly from the feedback and guidance provided by the Acting Assistant Secretary-General, Aminath Amany Ahmed and the members of the Standards Development and Research Department of the IFSB and members of the IFSB Technical Committee who reviewed the draft paper. The authors are grateful to all IFSB members who participated in the survey, and for providing useful comments on the draft paper during members' consultation.

Published by: Islamic Financial Services Board

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ABSTRACT

The rise in internet usage and increased awareness has led to the prominence of Peer to Peer (P2P) and other forms of Sharīʻah-compliant crowdfunding in Islamic Fintech. Crowdfunding plays a crucial role in providing Sharīʻah-compliant funding to underserved micro, small, and medium enterprises (MSMEs) and emerging start-ups. As Sharīʻah-compliant crowdfunding platforms and investors' participation increase, questions arise about the need for bespoke regulations to address specificities, and effective regulation and consumer protection. The challenges of Sharīʻah-compliant crowdfunding include diversity in funding types, protecting investors, mitigating systemic risks, addressing money laundering and terrorism financing, and navigating cross-border limitations and legal uncertainties. The lack of regulatory regimes and Sharīʻah governance frameworks in many jurisdictions contributes to these challenges. This paper reviews relevant policy and regulatory documents alongside a survey of IFSB members to explore these issues. The findings aim to look at existing regulatory practices across jurisdiction and identify any gaps in addressing the specificities of Sharīʻah-compliant Equity Crowdfunding (ECF) and Peer-to-Peer (P2P) financing domain.

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ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ALM	Asset–Liability Management
AML	Anti-Money Laundering
APAC	Asia–Pacific
CFT	Combating the Financing of Terrorism
CMA	Capital Market Authority
DCF	Discounted Cash Flow
ECF	Equity Crowdfunding
ESG	Environmental, social and governance
ICM	Islamic Capital Market
IsDB	Islamic Development Bank
IFSB	Islamic Financial Services Board
IFSI	Islamic Financial Services Industry
IPO	Initial Public Offering
IIFS	Institutions offering Islamic Financial Services
KYC	Know Your Customer
MENA	Middle East and North Africa
MSMEs	Micro, small, and medium enterprises
P2P financing	Peer-to-peer financing
RBS	Risk-Based Supervisory
RMOs	Recognised Market operators
RSA	Regulatory and supervisory authority
SC	Securities Commission
SDG	Sustainable Development Goal
SEA	South-East Asia
SRI	Sustainable and Responsible Investment
SSA	Sub-Saharan Africa
SSB	Sharīʻah Supervisory Board

Section 1: Introduction

1.1. Background

Equity Crowdfunding (ECF) as well as Peer-to-Peer (P2P) financing modes have emerged as an alternative form of financing to traditional banks. These participatory financing platforms offer alternative funding options for individuals and businesses who may face difficulties accessing traditional financing methods by utilising technology to enhance efficiency and flexibility for both investors and users of capital.[1] The growth and development of Sharīʻah-compliant P2P financing and ECF is consistent with the vision expressed in the recent edition of the IFSB/IsDB *Ten-Year Framework and Strategies for Islamic Financial Services Industry*. The framework emphasises the importance of technological innovation and the adoption of innovative business models in delivering Islamic financial services. The framework further highlights the need to enhance the ecosystem and technological infrastructure, in particular the Fintech sector, to facilitate digital transformation in the provision of financial services. Additionally, the framework recommends improving access to financial services for the majority of the population and enhancing funding opportunities for retail investors, and for Micro, Small and Medium Entrepreneurs (MSME).[2]

However, these alternative forms of financing are not without their share of risks, including but not limited to information asymmetry and inadequate information disclosure, the potential for fraud or misrepresentation, operational vulnerabilities, higher probabilities for default and failures of start-up businesses, lack of liquidity, and platform failure. They may also present challenges such as cyber threats, money laundering, financing of terrorism, as well as cross-border limitations and legal ambiguities. The rapid expansion of these platforms, if not adequately managed and supervised, may also pose potential systemic risks. For Sharīʻah-compliant ECF and P2P financing platforms, in addition to the common risks, Sharīʻah non-compliance risk is also an important consideration with respect to investments and financing contracts, as well as the platform and its operations.

Given the potential benefits as well as the associated risks of Sharīʻah-compliant ECF and P2P financing platforms, RSAs recognise the need to strike the right balance between promoting innovation and consumer protection.[3] Some jurisdictions view crowdfunding as an innovative way to facilitate funding for serving previously underserved segments such as small- and medium-sized enterprises and seed capital to start-up companies, with a goal of promoting economic growth. While this paper does not intend to address the relative benefits or risks of Sharīʻah-compliant ECF and P2P financing platforms, it recognises that a number of jurisdictions have either implemented or proposed crowdfunding regimes, and aims to look at the scope of existing regulatory regimes and whether there are additional regulatory requirements needed to address the specificities of Shari'ah-compliant ECF and P2P financing platforms.

[1] Ramli et al., (2022)
[2] IFSB/IsDB (2023)
[3] Dinar Standard, "Global Islamic Fintech Report" (2022)

1.2. Scope and Objectives

This paper provides an analysis and comparison of regulatory frameworks across jurisdictions, focusing in particular on Sharīʻah-compliant financing platforms including peer-to-peer (P2P) financing and equity crowdfunding. While P2P financing and ECF are distinctly different in structure, purpose, and approach, they are both discussed in this paper as they are methods to obtain funding or investor monies through online platforms. The paper aims to enhance IFSB's understanding of developments in member jurisdictions in terms of its current or proposed regulatory regimes for ECF and P2P financing and to highlight any emerging trends and issues in this area, particularly with respect to Sharīʻah specificities. The findings of the paper are intended to discern any need for further work in addressing regulatory or supervisory gaps for Sharīʻah-compliant P2P financing and ECF.

1.3. Methodology and Structure

The paper is based on the analysis of existing policy documents from regulatory and supervisory authorities, development institutions, and standard setting bodies as well as a survey of IFSB member regulators. The study relies on a survey questionnaire distributed to member RSAs to gather information on the existing practices across jurisdictions. The findings of the survey were also supported by more focused discussions with selected regulators as well as through comments received by IFSB members during the consultation on the draft working paper. The paper also benefited from discussions at the 1st IFSB Consultative Group meeting, held in Riyadh, Saudi Arabia.

Section 2: Regulatory Frameworks

2.1. Sharīʻah-Compliant ECF and P2P Financing Concepts

P2P financing is a business model that enables investors, either solely or with others, to provide financing to borrowers. In a P2P model, financing may be obtained from many different investors, who may earn a monthly profit in addition to capital repayments.[4] This expands the opportunities for entrepreneurs and small business owners to access capital from a diverse group of individual investors, even in small amounts.[5]

Sharīʻah-compliant ECF is a business model that enables investors to invest in a company, typically a start-up or an early-stage business, in exchange for shares of that company. Investors may receive returns on their equity crowdfunding investments from dividends, the sale of the company, or the sale of shares if the company becomes listed on a stock exchange.[6] Investors also hold voting rights in project management.[7] ECF provides an alternative financing avenue for start-ups or small businesses that face challenges in securing funding from traditional investors or venture capitalists. Additionally, it allows retail investors to participate in early-stage companies that are perceived as having significant growth prospects.

The emergence of Sharīʻah-compliant P2P financing and ECF platforms signifies a shift towards catering to the specific requirements of Muslim investors and entrepreneurs. These Sharīʻah-compliant alternative financing solutions also promote financial inclusion within the MSME sector. Some also leverage the sustainable potential of *waqf* for societal development.[8] Currently, only a few jurisdictions have taken formal steps to recognise and regulate Sharīʻah-compliant P2P financing and ECF platforms as providers of alternative finance. These jurisdictions acknowledge the importance of facilitating access to capital for businesses and individuals within a Sharīʻah-compliant framework, thereby supporting the growth and development of the Islamic finance industry.

Crowdfunding, in its equity and debt-based forms, can be deemed Sharīʻah-compliant when it adheres to the principles of Sharīʻah. This includes avoiding prohibited activities such as charging interest (*riba*), engaging in speculative practices (*gharar*), and investing in sectors that are considered non-permissible (*haram*). Sharīʻah scholars or advisory boards can provide guidance and oversight on the business models, investment structures, and underlying contracts of the crowdfunding platform to ensure they comply with Islamic principles. For example, Sharīʻah compliance can be achieved by adhering to certain principles such as profit and loss sharing where investors and entrepreneurs share the risks and rewards of the business venture based on agreed-upon terms (*mudarabah* or *musharakah*). Sharīʻah-compliant P2P financing platforms substitute alternative structures (using Shari'ah-compliant contracts) for interest-based lending with to ensure that the financing activity is free from *riba.* In the case of Sharīʻah-compliant ECF, where investors receive ownership stakes or shares in a business, the business activities should also comply

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[4] IOSCO (2017)
[5] https://www.conventuslaw.com/report/peer-to-peer-p2p-financing-legal-framework-in/
[6] IOSCO (2017)
[7] Pierrakis et al., (2014)
[8] Ghaouri et al., (2021)

with Sharīʻah principles. If the platform itself makes a claim of Sharīʻah-compliance, the operational aspects of the platform should also be in accordance with Sharīʻah requirements including how it holds its cash and assets.

2.1.1. Regulatory Landscape for Sharīʻah-compliant ECF and P2P Financing

RSAs that responded to the survey provided the definition of Sharīʻah-compliant P2P financing and ECF, as used in their jurisdictions. In some jurisdictions, the definitions were specific to Sharīʻah-compliant models, while in others, they were defined generally.

- **The Securities Commission of Malaysia (SC)** defines Sharīʻah-compliant P2P financing as an electronic platform that facilitates directly or indirectly the issuance, execution, or offering of an Islamic investment note. Sharīʻah-compliant ECF was defined as an electronic platform that facilitates directly or indirectly the issuance, execution, or offering of Sharīʻah-compliant securities.
- **The Indonesia Financial Services Authority (OJK)** defines P2P financing (known as Information Technology-Based Joint Funding Service Providers) as legal entities that provide, manage, and operate the provision of financial services to bring together funders with recipients of funds in conducting funding based on Sharīʻah principles directly through an electronic system using the internet. OJK defines ECF as the practice of collecting a small amount of money from a large number of people or organisations to fund a specific business venture, or individual or societal needs through an internet-based platform following Sharīʻah principles.
- **The Capital Markets Board of Türkiye** describes P2P financing as debt-based crowdfunding involving raising funds from the public through crowdfunding platforms in exchange for crowdfunding debt instruments.
- **The SEC of the Philippines** defines lending-based crowdfunding as a fundraising activity conducted online, where individuals lend money to a company and receive a legally binding commitment to repayment at predetermined intervals. It defines ECF as a fundraising method carried out via an online platform which offers alternative financing options as substitutes to traditional methods like bank financing. This allows individuals (clients of the ECF platform) to invest in shares offered by issuer companies, typically start-ups and MSMEs. The participants receive a portion of the profits through dividends and/or capital appreciation, in return for their investment.

Generally, there are commonalities among the definitions provided by respondents as regards the operations of equity-based and debt-based crowdfunding institutions. However, only a limited number of respondents formally recognised Sharīʻah-compliant business models through their definitions.

Based on the survey responses, the existence and formal recognition of Sharīʻah-compliant ECF and P2P financing as providers of Sharīʻah-compliant alternative finance can be segregated into three categories:

Category 1	Jurisdictions where Sharīʻah-compliant P2P financing and ECF platforms exist and are formally recognized for their role in Sharīʻah-compliant alternative finance.
Category 2	Jurisdictions where Sharīʻah-compliant ECF and Sharīʻah-compliant P2P financing operate without specific emphasis and requirements to adhere to Sharīʻah principles in conducting their operations.
Category 3	Jurisdictions where neither Sharīʻah-compliant nor conventional P2P financing and ECF platforms are present nor considered as formally rendering Sharīʻah-compliant alternative finance.

The majority of the respondents fall into the second category where the regulatory framework guiding the operation of P2P financing and ECF platforms does not distinguish between Islamic and conventional modes of operation. However, some respondents indicated that their regulatory framework for P2P financing and ECF platforms provide flexibility to operators who wish to offer Sharīʻah-compliant products and position themselves as Sharīʻah-compliant financial services providers. As such, the operators are required to comply with the legal and regulatory frameworks governing their operations within their respective jurisdictions.

- **In Türkiye**, there is no official distinction between conventional and Sharīʻah-compliant models of crowdfunding as there is no such specific regulation on Islamic models of crowdfunding, as explained by the Capital Markets Board of Türkiye (CMB). However, the CMB also clarified that all equity and debt-based crowdfunding activities, regardless of whether they are Islamic or not, must adhere to the guidelines outlined in its Communiqué on Crowdfunding (III-35/A.2). According to this Communique, Islamic banks are also allowed to establish and operate crowdfunding platforms.[9]
- **In UAE, the DFSA** clarified that there is no dedicated regime for Sharīʻah-compliant crowdfunding and affirmed that the activities of the crowdfunding operators, which covers three different financing modes - P2P, ECF, and property crowdfunding - are conducted within the DIFC and are regulated by standard crowdfunding regulations that are applicable to all crowdfunding operators. However, if a crowdfunding operator intends to offer Sharīʻah-compliant crowdfunding services as an Islamic institution or through an Islamic window, it must obtain an endorsement and establish proper systems and controls to ensure that the business adheres to Sharīʻah principles.[10]
- **The FSC Mauritius and the SEC of the Philippines**[11] noted that the rules for the operation of P2P lending and ECF activities have been implemented at the conventional level and there is no specific regulation in place defining Sharīʻah-compliant ECF or P2P financing.
- **The Central Bank of Bahrain**, on the other hand, indicated that both debt and equity crowdfunding platforms have the capability to offer Sharīʻah-compliant products.

[9] Capital Market Board of Türkiye, Communiqué on Crowdfunding (III-35/A.2)
[10] See the Islamic Finance Rules (IFR) module of the DFSA Rulebook
[11] Security and Exchange Commission of the Philippines, Memorandum Circular (MC) No. 14 Series of 2019

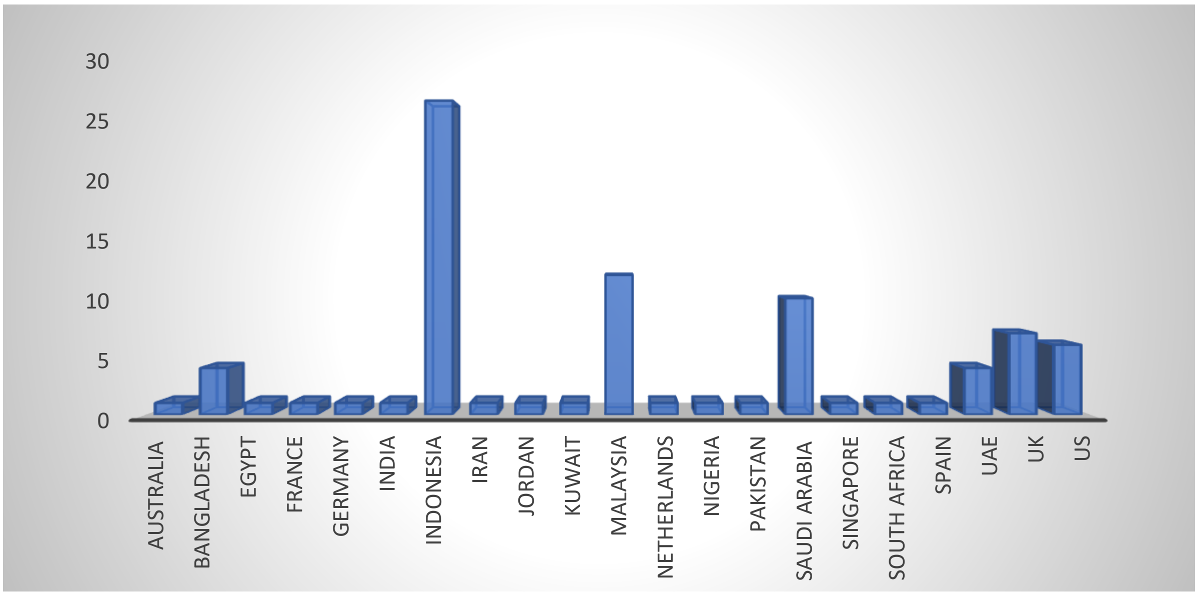
- **According to the SEC, Pakistan** a P2P lending platform has undergone assessment within the regulatory sandbox and subsequently received a license as a non-banking finance company.[12] However, there are no Sharīʻah-compliant P2P financing platforms at present and ECF companies are not permitted in Pakistan. Only *muḍārabah* companies are allowed to operate and might offer similar services under the regulatory oversight of the SEC of Pakistan.[13,14]
- **The Central Bank of Jordan and Palestine Monetary Authority** observed that there is currently no existing legal and regulatory framework in place for ECF and P2P platforms because their activities are unclear. Therefore, no license has been granted to Sharīʻah-compliant P2P platforms. In the case of Jordan, the licensing process for finance companies as a whole is still in progress, including those offering facilities according to Islamic principles.[15]
- **OJK Indonesia** updated its guidelines in 2022 on mechanisms and procedures for SCF providers offering Sharīʻah-compliant securities. Prior to this, OJK revised its regulation in 2020 regarding securities crowdfunding. The new regulation broadens the coverage of securities that can be offered through crowdfunding platforms to include equity, bonds, and *ṣukūk*. Specifically, this regulation recognises and requires Sharīʻah-compliant SCF (both full-fledged and windows) to establish Sharīʻah advisory boards (SSB) to ensure compliance with Sharīʻah principles in conducting business.

Only a few respondents highlighted the need to specifically regulate the operations of Sharīʻah-compliant P2P financing and ECF platforms, emphasising the need to seek endorsement and establish robust systems and controls if they intend to offer Sharīʻah-compliant crowdfunding services, either as full-fledged Islamic entity or through an Islamic window.

There are increasing numbers of Sharīʻah-compliant P2P financing and ECF platforms. Some data providers[16] indicate that there are currently about 87 Sharīʻah-compliant crowdfunding platforms that provide Sharīʻah-compliant solutions across 21 countries, although there are no official data sources that comprehensively capture verified data on Sharīʻah-compliant alternative financing platforms. Based on the data available, such platforms are predominantly concentrated in the Middle East and Southeast Asia, but are also found in non-Muslim majority countries (i.e., UK and USA). This highlights a growing interest and adoption of Sharīʻah-compliant crowdfunding beyond traditional Muslim-majority regions.[17] However, many of these jurisdictions do not yet have specific regulatory frameworks governing the activities of Sharīʻah-compliant P2P financing and ECF platforms. (Figure 2.1.2.1 illustrates the distribution of Sharīʻah-compliant P2P financing and ECF platforms worldwide on a country-by-country basis.)

Figure 2.1.2.1. Sharīʻah-compliant Crowdfunding Platforms (P2P financing and ECF) across jurisdictions

[12] According to the SECP guidelines specified in the Non-Banking Finance Companies and Notified Entities Regulations (2008)
[13] SECP BFI & Modaraba Sector (2020)
[14] The SECP Securities Act of 2015
[15] Central Bank of Jordan are regulated under the Finance Companies Bylaw no (107)
[16] IFN Islamic Fintech
[17] Arab Monetary Fund (2021)



Source: *IFN landscape, 2023*

2.1.2. Permitted Activities on Sharīʻah-Compliant P2P and ECF Platforms

The survey explored the range of activities allowed by regulators for Sharīʻah-compliant P2P financing and ECF. The findings revealed that the main activities conducted by Sharīʻah-compliant ECF operators in the participating jurisdictions are (i) fundraising for incorporated entities, (ii) holding client assets to facilitate transactions, (iii) promoting to individual investors, and (iv) operating a secondary market (in some jurisdictions and according to some restrictions). In certain jurisdictions, the scope of P2P financing activities also includes (v) access to relevant credit/transaction data on users from a public registry or as mandated open data, and (vi) lending/financing services through an online medium or otherwise to the participants who have entered into an arrangement with that platform to lend or to borrow money. For Sharīʻah-compliant P2P financing and ECF specifically, the services provided by these platforms included products such as *murābaḥah*, *mushārakah*,[18] and other Sharīʻah-compliant contracts including Islamic social finance products such as *ṣadaqah* and *waqf*.[19]

A common practice for platforms is retaining custody of clients' assets to facilitate transactions, which also presents certain Sharīʻah considerations. Regulated platforms involved in this activity temporarily hold funds from investors, either before allocating them to investments or before distributing income from investments to the investors. Platforms that make a claim of Shari'ah-compliance would need to ensure that client assets are held in a Sharīʻah-compliant manner, e.g., in non-interest-bearing accounts.

Secondary market operations and the provision of fund or insurance products as compensation for investors in case of loss are less commonly permitted activities within the P2P financing and ECF sector. This could be attributed to the fact that the secondary market for securities falls under separate regulations, which require another license beyond the scope of ECF. OJK for instance, allows only ECF/SCF providers to conduct

[18] H. Baber (2019)
[19] IFSB Technical Note on Financial Inclusion (2019)

secondary market activities for securities under certain conditions specified in the regulation, but does not allow for bond and *ṣukūk*.[20] On the contrary, the DFSA does not allow crowdfunding operators to operate a secondary market within the DIFC. However, they are permitted to have a "transfer facility" that facilitates the sale to ensure the necessary liquidity. Among those jurisdictions that participated in the survey, only DFSA has a "transfer facility" for liquidity purposes, even though secondary market or related operations are not allowed.

2.2. Regulatory Authorities

The regulatory authorities that are involved in the regulation and supervision of P2P financing and ECF varied across jurisdictions surveyed. The survey indicates the jurisdictions where capital market supervision is carried out by one integrated regulator, and P2P and ECF falls under the remit of that regulator. A typical example is Central Bank of Bahrain (CBB) which has commenced licensing the operators of both P2P and ECF platforms.

In some other jurisdictions, the supervision of P2P financing and ECF falls solely under the remit of the capital markets regulator. In some cases, platforms are regulated and supervised by the capital market regulator specifically during the shares offering stage, but after the offering process is completed, the continuous issuance may not be subject to the regulation of the capital markets regulator.[21] Securities Commission Malaysia falls under this category: it regulates both Sharīʻah-compliant P2P financing and ECF platforms, and issued its crowdfunding regulatory framework in December 2015, setting out comprehensive regulations governing P2P financing and ECF platforms.[22] The Capital Markets Board of Türkiye also falls under this category, regulating both equity-based and debt-based crowdfunding in Türkiye.

In other jurisdictions P2P financing may be under the purview of the prudential or the banking regulator. However, the capital markets regulator may be involved if activities of the platform are qualified as asset management or management of investment schemes. For example, in Kuwait, while the Central Bank of Kuwait is responsible for overseeing Sharīʻah-compliant P2P financing, the Capital Market Authority of Kuwait is responsible for the regulation of Sharīʻah-compliant ECF.[23] In Jordan, the supervision of crowdfunding does not fall under the responsibilities of Central Bank of Jordan.

The variation in regulatory remit underscores the diverse approaches taken by different jurisdictions to ensure the effective supervision and governance of these financial services.

2.3. Regulatory Regime, Perimeter, and Obligations

2.3.1. Specificities of Sharīʻah-compliant P2P financing and ECF platform

[20] OJK 2020 guideline POJK No. 57/POJK.04/2020
[21] This is due to the fact that the issuing companies are joint stock companies that are not listed in the capital market.
[22] The SC issued the Guidelines on "Recognized Markets" in December 2015
[23] Module 19 (FinTech) of the CMA Executive Bylaws, according to the CMA Resolution No. 10 of 2023, the regulation is set to become effective on January 2, 2024

Regulation of Sharīʻah-compliant P2P financing and ECF has evolved over the years, leading to a wide range of regulatory responses and emergence of diverse market characteristics among jurisdictions. Survey responses varied on established regulatory frameworks for Sharīʻah-compliant P2P financing and ECF within the respondents' jurisdictions.

The majority of respondents emphasised ongoing efforts to amend existing regulations to encompass Sharīʻah-compliant ECF operations, **while for Sharīʻah-compliant P2P financing, most respondents noted that the existing regulation is sufficient,** therefore the regulations remain unchanged. Nonetheless, a few respondents indicated ongoing initiatives to modify the existing regulations to encompass the specificities of these financial intermediaries. In some others, the operators of Sharīʻah-compliant P2P financing and ECF are permitted to carry on their activity although there is no dedicated regulation.

Only three jurisdictions confirmed that they enforce obligations regarding any requirements to establish a Sharīʻah governance framework, such as the Sharīʻah-compliance of products, services, and operations. In Indonesia, OJK requires Sharīʻah-compliant ECF/SCF operators (full-fledged and windows) to establish a Sharīʻah Supervisory Board (SSB) which comprises of members that are registered with OJK as Sharīʻah experts of the capital market. The SSB has the responsibility to ensure that those operators meet Sharīʻah compliance criteria for issuing equity securities. Similarly, Sharīʻah compliance is required in all aspects of *ṣukūk* issuance (underlying assets, use of proceeds, and *ṣukūk* structure).[24] In Malaysia, the Securities Commission (SC) has continued its efforts to ensure adherence to Sharīʻah in fundraising activities, as well as Sharīʻah issues pertaining to the secondary market. Significant steps have been taken to address the specifics of Sharīʻah-compliant P2P financing and ECF. In 2021, the SC Malaysia introduced the Sharīʻah Screening Assessment Toolkit for MSMEs, which aims to guide crowdfunding platform operators in assessing MSMEs, among other goals.[25] The toolkit addresses the unique needs of MSMEs and promotes transparency and trust among investors in the Islamic finance ecosystem.[26] SC Malaysia also opened a new application process for registration of new ECF and P2P market operators with Sharīʻah solutions and a value proposition.[27]

Given the peculiarity of IIFS and its distinction from their conventional counterparts, the IFSB has developed guiding principles to standardise Sharīʻah governance within Islamic financial institutions. These principles emphasise Sharīʻah compliance across all aspects of IIFIs' operations, define stakeholder roles, and stress the importance of independence and integrity among Sharīʻah board members. It also advocates for robust internal controls like Sharīʻah audits to ensure ongoing compliance and enhance transparency and accountability.[28] Additionally, the IFSB provides guidelines for the conduct of business in Islamic financial services, promoting fairness and transparency. These principles can be applied with some considerations to P2P financing and ECF platforms, ensuring integrity and fairness within the IFSI.[29]

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[24] Guidelines as specified in Circular Letter No. 3/SEOJK.04/2022

[25] Sharīʻah screening assessment toolkit for the unlisted micro, small, and medium enterprises can be accessed via the following website:www.sc.com.my/development/icm/developmental-initiatives/shariah-screening-assessment-toolkit-for-the-unlisted-micro-small-and-medium-enterprises

[26] Securities Commission Malaysia (2021)

[27] SC Malaysia, www.sc.com.my/resources/media/media-release/sc-unveils-digital-related-initiatives-to-bolster-capital-market

[28] IFSB 10 (2009)

[29] IFSB 9 (2008)

Issues specific to Sharīʿah-compliant P2P financing

Surveyed jurisdictions where the regulatory framework recognises the provision of Sharīʿah-compliant financial products and services for P2P financing affirmed the sufficiency of these regulations in terms of permissible activities and expected obligations. The respondents noted the existence of dedicated regulations that impose specific regulatory obligations for P2P financing platforms offering Sharīʿah-compliant funding. In addition, firms are required to ensure accurate and complete communications with customers, compliance with mandatory governance requirements, adherence to Anti Money Laundering (AML) rules tailored to this type of firm, provision of standardised information to investors, compliance with complaint-handling requirements, segregation of client assets from firm assets, adherence to eligibility criteria before fundraising, thorough creditworthiness and affordability checks on fundraisers based on factors like years of operation and annual sales, a feasible "wind-down" plan to mitigate the impact of platform failure, claims verification made by fundraisers potentially through third-party verification, cancellation rights for fundraisers/investors, maintenance of a minimum amount of capital, compliance with restrictions on advertising using specific types of media such as social media, and capping the amount that may be raised over a defined period, typically 12 months. Other extant requirements may include but are not limited to:

- limits on the maximum amount a single investor can provide to a single fundraiser, to ensure diversification and risk management within the platform.
- caps on the amount an individual can invest, based on a defined percentage of wealth or income. This measure aims to protect investors from potential excessive risk exposure.
- maintenance of capital reserves that are proportionate to the total amount of investments made through the platform. This requirement is intended to safeguard the financial stability and security of the platform.
- mandated sharing of relevant user data, such as with a public or private credit registry. This facilitates transparency and supports the evaluation of creditworthiness for both investors and fundraisers.

These regulations impose broader obligations to the platform operators to ensure fairness and stability, and to contribute to effective oversight in the operation of crowdfunding platforms within these jurisdictions.

Those respondents with a dedicated regulatory framework for Sharīʿah-compliant platforms implement requirements regarding the establishment of Sharīʿah-governance and the sharing of relevant user data with credit registries. For instance, in Malaysia, SC Malaysia guidelines for operators offering Sharīʿah-compliant P2P platforms set out several key aspects, including (i) requirements for platform operators' registration; (ii) requirements for reporting and disclosure; (iii) requirements for Sharīʿah compliance; and (iv) Anti–Money Laundering. Moreover, the SC Malaysia's regulation requires P2P platform operators to register as Recognised Market Operators (RMOs) and comply with the prescribed minimum paid-up capital. Other aspects of the regulation include conducting due diligence on potential issuers and evaluating their creditworthiness, as well as sharing relevant information with investors. The guidelines place obligations on the platform operators to establish procedures to recover funds owed to investors in case of borrower default. Unlike in ECF platform, there is no restriction imposed by Malaysian regulations on the amount borrowers can raise, but they can only access funds exceeding 80% of their funding goal and cannot receive amounts exceeding that goal.

Operators that offer Sharīʻah-compliant P2P platforms are required to maintain Islamic trust accounts to ensure the security and integrity of investors' funds. The responsibilities associated with a trust account are carried out by both issuers and investors. For issuers, a P2P operator in Malaysia is required to create and maintain a designated trust account at a licensed institution to hold the issuer's funds facilitated through their platform. As for investors, the P2P operator assumes the responsibility of managing the trust account for the funds received as investor repayments. Similar requirements are found in OJK's regulatory framework for P2P operators.[30] SC Malaysia guidelines also outlined specific eligibility or participation restrictions imposed on individuals and entities investing or benefitting from a P2P platform. Excluded are (i) commercially or financially complex structures; (ii) publicly listed companies and their subsidiaries; (iii) companies without a specific business plan or those planning to merge or acquire an unidentified entity; (iv) companies intending to use the raised funds to provide credit or invest in other entities; and (v) entities specified by an issuer that are not permitted to simultaneously run the same campaign on another P2P platform.[31]

Certain regulators have implemented limitations on the amount that a borrower can raise within a specific timeframe (often 12 months). Such restrictions serve a dual purpose. First, they aim to safeguard those providing financing from being excessively exposed to failing businesses or to prevent situations of excessive borrowing. Second, these limitations also aid in regulating areas where financing risks intersect with deposit-taking activities by curtailing the extent to which businesses finance their ongoing operations through public borrowing.[32]

Whether conventional or Islamic, the surveyed jurisdictions have identified and emphasised the importance of regulatory obligations that are tailored to the specific nature of P2P financing. These adapted regulatory obligations play an essential role in fostering a fair and secure environment for fundraisers and investors participating in the P2P financing sector. The primary objective of these regulatory obligations is to protect the interests of stakeholders, uphold market integrity, and foster the growth and sustainability of P2P financing as a whole.

Issues specific to Sharīʻah-compliant ECF

Respondents emphasise that the regulatory guidelines designed for operators offering Sharīʻah-compliant ECF platforms are designed to safeguard investors while avoiding excessive burdens on fund seekers and covers all the practices observed in Sharīʻah-compliant P2P operations. This includes, but is not limited to, sharing relevant user data with credit registries, promoting investments based on wealth and/or experience, complying with mandatory governance requirements such as independent risk management and internal audits, and additional requirements specific to the Sharīʻah-compliant ECF platform operations.

While certain regulators enforce limitations on the proportion of an investor's wealth or income that can be allocated to ECF, other regulators have either prohibited retail investors from participating in ECF or mandated that investors possess professional

[30] See OJK guidelines POJK 57/2020
[31] Ramli et al. (2022)
[32] IFSB Technical Note on Financial Inclusion (2019)

credentials. For instance, in Abu Dhabi, ECF investment is limited to sophisticated retail investors or professional investors. These measures aim to ensure investor protection and align with the specific regulatory approaches taken by different MENA jurisdictions.[33] Similarly, for P2P financing, some jurisdictions also place restrictions on the amount that a single fundraiser can raise during a specified time period (usually 12 months). In Indonesia, OJK guidelines require the individual investors who purchase securities through SCF providers to meet the criteria stipulated for investors and observe limitations and restriction on buying securities. However, this requirement may be different for investors in the form of legal entities and a proven investor with experience in capital market investment.[34]

In Malaysia, SC Malaysia guidelines requires the operators offering Sharīʻah-compliant ECF platforms to obtain recognition as Recognised Market Operators (RMOs). This designation imposes obligations on the platform operators to uphold a fair and transparent market, manage risks effectively, and adhere to all relevant regulations. Other requirements include conducting due diligence on issuers, organising investor education programs, obtaining risk acknowledgments from investors, and ensuring regulatory compliance by both issuers and investors. On the other hand, the guidelines restrict issuer eligibility to locally incorporated private limited companies and limited liability partnerships.

The guidelines require issuers to provide business plans, capital purpose details, and financial statements. Additional disclosure requirements as applicable include (i) for offerings above a certain threshold, an audited financial statement; and (ii) for offerings below the threshold, issuer-provided audited financial statements that cover a minimum period of 12 months. If audited financial statements are not available, certified financial statements or information from the issuer's management should be provided.[35] Other documents specified by respondents regarding disclosures are documents related to business profiles, legal documents of entity, capital structure, and information about the founder(s) and management.[36] Moreover, SC Malaysia, as well as respondents including the Capital Market of Oman, the Capital Market Board of Türkiye, and DFSA also noted that their guidelines allow approved issuers to raise up to a specified threshold within 12 months, with a total cap of a slightly higher threshold. In addition, restrictions vary based on investor category. For example, retail investors' threshold is less than the one for angel investors, per year, while sophisticated investors face no investment restrictions.

These findings highlight the increasing recognition of the importance of regulatory frameworks for Sharīʻah-compliant ECF and the efforts made to align them with established practices. The inclusion of Sharīʻah-governance requirements underscores the commitment to upholding Islamic principles in financial transactions. Furthermore, the emphasis on data sharing and tailored investor promotion reflects a deeper understanding of the unique characteristics and considerations of Sharīʻah-compliant ECF. Overall, the research supports the notion that regulatory authorities are taking steps to accommodate and regulate Sharīʻah-compliant ECF within their jurisdictions, incorporating both established regulatory practices and novel adaptations specific to the Islamic finance domain.

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[33] Cambridge Centre for Alternative Finance (2021)
[34] See requirements in POJK 57/2020 related to investors
[35] Principles of proportionality and the specific nature and type of activity are applicable
[36] IFSB Technical Note on Financial Inclusion (2019)

2.3.2. Regulatory Perimeter

Respondents provided varied responses with regard to the regulatory perimeters for oversight of crowdfunding operators.

- **In Türkiye**, equity and debt-based crowdfunding activities are under the regulatory purview of the CMB, which clarified that crowdfunding platforms are not classified as capital market institutions according to the specific regulatory framework they are subject to and crowdfunding transactions and platforms are not governed by the provisions of investment services and activities. These activities are also not subject to CMBs regulations pertaining to exchanges, market operators, and other organised marketplaces. Additionally, fundraising activities in exchange for rewards or donations through crowdfunding platforms do not fall under CMB's crowdfunding regulations.
- **In UAE**, the DFSA noted that platform operators are regulated as intermediaries and benefit from certain regulatory exemptions. The DFSA further explained that there is no specific regulation tailored for Sharīʻah-compliant crowdfunding. However, Sharīʻah-compliant crowdfunding is accommodated within the regulations governing crowdfunding in general.
- **The Capital Market Authority of Saudi Arabia** clarified that operators of ECF platforms, referred to as securities crowdfunding platforms in accordance with the approved terminology of the Regulatory Framework of ECF, are regulated as capital market institutions holding an arranging license ("Arrangers"). These operators are subject to all the regulatory provisions stipulated under the arranging license. Building on the requirements for practicing ECF based on previous experience within the Fintech Lab, arranging licensed market institutions conducting crowdfunding activities in securities must adhere to additional regulatory provisions. These include certain conditions that allow dealing with clients' funds as an exception to the custody license. Furthermore, such operators are required to implement the provisions outlined in the investment accounts instructions.

Overall, some jurisdictions have made considerable progress in regulating Sharīʻah-compliant P2P financing and ECF as intermediaries, granting exemptions from specific requirements related to securities offerings and regulations pertaining to assets and fund management activities. However, the legal frameworks surrounding these platforms continue to exhibit substantial uncertainty across multiple jurisdictions. The lack of clear regulatory oversight further adds to the complexity of the situation. This jurisdictional disregard emphasises the ongoing imperative to establish comprehensive and customised regulatory frameworks that address the distinctive characteristics of these financing models. The need for tailored regulations is evident in order to ensure appropriate oversight and supervision of Sharīʻah-compliant P2P Financing and ECF, fostering investor protection and market integrity in these domains.

2.3.3. Complementary Regulatory Frameworks

Surveyed jurisdictions indicated the availability of a range of complementary regulatory frameworks that apply to Sharīʻah-compliant P2P financing and ECF platforms. Most jurisdictions highlighted data protection laws, AML/CFT regulations, transparency and disclosure frameworks, and investor/fundraiser protection frameworks as well as a structured framework for utilising intermediaries or agents. However, the survey responses also revealed that some jurisdictions still lack a framework for the use of intermediaries or agents, as well as a dedicated data protection framework. These remaining gaps in some jurisdictions not only underscore the importance of bridging any regulatory deficiencies but also emphasise the necessity for the continued development of comprehensive regulatory measures to ensure effective intermediation, data privacy, and consumer protection within the realm of Sharīʻah-compliant P2P financing and ECF. To address these concerns, regulatory authorities can draw upon valuable resources such as the research paper on financial customer protection in Islamic finance issued by the IFSB.[37] This paper provides a range of instruments for financial consumer protection, offering guidance on enhancing safeguards for investors and promoting financial stability. Additionally, the IFSB's Guiding Principles for Investor Protection in the ICM[38] sets out minimum requirements to be implemented in the ICM, emphasising the protection of investors and the overall promotion of financial stability.

2.4. Regulatory Drivers and Efforts

Many of the surveyed jurisdictions do not currently have specific regulations to regulate the operation of Sharīʻah-compliant P2P financing and ECF platforms. However, some respondents indicated that their existing regulatory framework is currently undergoing amendments and reviews to accommodate the Sharīʻah-compliant versions of these platforms.[39] Those respondents described proactive measures taken with regards to getting appropriate regulations to control the operations of Sharīʻah-compliant P2P platforms to include reviewing regulatory frameworks from other jurisdictions, engaging in informal consultations with various stakeholders, utilizing supervisory powers to conduct diagnostic or thematic reviews, and closely monitoring technological advancements within a "test-and-learn" or regulatory sandbox environment.[40] This demonstrates a commitment to staying informed, fostering industry collaboration, and staying ahead of emerging trends to effectively regulate and promote the growth of Sharīʻah-compliant P2P financing platforms.

The findings also highlight that a number of respondents are actively pursuing regulatory changes related to the operation of Sharīʻah-compliant ECF. In addition to the aforementioned efforts, more jurisdictions are undertaking similar initiatives to prepare their respective regions to accommodate ECF platforms that offer Sharīʻah-compliant services. This is evident from steps such as issuing a call for evidence or consultation papers specifically addressing ECF institutions offering Sharīʻah-compliant products and services.

The survey findings show the existing divergent views among the respondents regarding the regulation of Sharīʻah-compliant P2P financing and ECF platforms. A number of jurisdictions view the development of this framework as an extension of the existing regulatory requirements. Others do not see the necessity for such measures and consequently have no intentions to amend the current regulations or introduce specific requirements adapted to the specificities of the Islamic mode of operation.

[37] Nienhaus (2015), IFSB Working Paper No. 3
[38] IFSB 24
[39] Example: The Capital Market Authority of Kuwait
[40] IFSB survey 2023

2.5. Potential Risks

Market dynamics and disruptive technologies inevitably introduce new risks that may pose challenges in identifying them for market participants, customers, and regulators. To shed light on the different risks facing Sharīʿah-compliant P2P financing and ECF, this paper aims to identify common risks across activities and jurisdictions. The opinions among the respondents regarding these risks were diverse.

One notable risk is the potential for money laundering (ML) and financing terrorism (FT) arising from the mobilisation and disbursement of funds by unregulated crowdfunding platforms. A significant risk highlighted by surveyed jurisdictions pertains to integrity, including the potential for fraud, leaks to unintended fundraisers, and the exploitation and abuse by certain Sharīʿah-compliant crowdfunding platforms, disguising themselves as promoters of Sharīʿah-compliant solutions for fundraisers and investors.

Technology risks along with cyber risks are prominent risks, as crowdfunding platforms use digital technologies as an alternative way to raise capital. Some respondents felt that this presents one of the primary risks of digital investment platforms as they depend mainly on technology. Some surveyed jurisdictions have issued guidance on managing cybersecurity risks. It also highlights the need for greater consumer awareness of cyber-related risks as well as measures to mitigate these risks.

A risk unique to Sharīʿah-compliant platforms is Sharīʿah non-compliance risk (SNCR). SNCR can in turn present reputation risks and reduce investor confidence in Sharīʿah-compliant P2P and/or ECF offerings. Thus, the presence of appropriate Sharīʿah governance mechanisms along with relevant and timely disclosures are critical to address and mitigate potential SNCR if a P2P financing and/or ECF platform make a claim of Sharīʿah-compliance with respect to either individual investments or financing, or to the platform itself. A number of surveyed jurisdictions, including SC Malaysia,[41] CMA Oman, OJK Indonesia requires crowdfunding platform operators who wish to offer Sharīʿah-compliant products and services to hire a Sharīʿah advisor and establish an Islamic account.

It is essential to establish an appropriate and proportionate Sharīʿah governance system[42] to ensure that a claim of Sharīʿah compliance is correct. The relevant IFSB standards[43] recommend appropriate Sharīʿah governance processes and mechanisms for monitoring ex-ante and ex-post Sharīʿah compliance to ensure: (i) consistent compliance with Sharīʿah rules and principles in the daily operations of the firm; (ii) appropriate Sharīʿah approval and/or screening processes for all products offered to investors; (iii) periodic reviews of Sharīʿah compliance status; and (iv) purification of any tainted income. The role of the Sharīʿah board is crucial and essential: Sharīʿah boards are entrusted to play a vital role in ensuring compliance with Islamic principles. They oversee compliance, evaluate investment opportunities, review documentation, and provide guidance. Their expertise is essential in upholding Sharīʿah compliance, fostering investor confidence, and aligning these platforms with Islamic values. It is therefore recommended that these institutions establish a Sharīʿah governance framework.

[41] Securities Commission Malaysia (2015) www.sc.com.my/api/documentms/download.ashx?id=7279989d-00f8-4ebc-8c18-fbf6c260ab1a (chapter 23).
[42] Principles of proportionality and the specific nature and type of activity are applicable.
[43] IFSB-6, IFSB-10, IFSB-21 (CPICM), and IFSB-24

Respondents highlighted further specific risks associated with Sharīʻah-compliant P2P financing and ECF in their respective jurisdictions. These include the potential risks of inadequate or misleading disclosures made by platform operators to customers or investors, emphasising the need for transparent and accurate information dissemination. For Sharīʻah-compliant ECF, respondents pointed out risks related to investors' exposure, such as the nature of equity issued, default risks of the issuer, liquidity risk, and longer time required for investment exit. One respondent mentioned that the assessment for the relevant risks is still not clear while these platforms wait to be licensed by the relevant regulatory authority. This underscores the importance of incorporating robust regulatory and supervisory measures, including transparent disclosure practices and effective risk mitigation strategies, to safeguard the interests of customers and investors engaging in Sharīʻah-compliant P2P financing and ECF activities.

Beyond SNCR, it is also crucial for platform operators to proactively identify and address potential sources of operational risk, both from internal and external factors. This entails implementing suitable systems, policies, procedures, and controls to mitigate the impact of such risks. However, other forms of operational risks would tend to be similar for both Sharīʻah-compliant and conventional P2P financing and ECF platforms and may not present any additional considerations.

Supervisory authorities must be cognisant of the distinctive features of Sharīʻah-compliant models of P2P financing and ECF They need to understand the nuances and particularities of these innovative financing methods to effectively carry out their supervisory responsibilities. Given the crucial importance of this in the Islamic financial services industry, IFSB-1 highlights the primary risks faced by institutions providing Islamic financial services.[44] Notably, particular emphasis was placed on liquidity risk management as outlined in the IFSB-12.[45] These risks also extend to Sharīʻah-compliant P2P and ECF, alongside other distinct risks that necessitate meticulous identification and appropriate attention. Regulators can also refer to the Risk-Based Supervisory (RBS) frameworks that take into consideration Sharīʻah non-compliance risk, rate-of-return risk, equity investment risk, and displaced commercial risk.[46]

In TN-3, the IFSB emphasises the significance of robust and integrated risk management frameworks for all institutions involved in financing activities, regardless of their deposit-taking or non-deposit-taking status. This emphasis is vital to ensure the institution's ongoing viability and reputation, whether it operates for profit or as a non-profit service provider. TN-3 recommends that finance providers participating in Islamic financial inclusion initiatives should establish appropriate policies, systems, and procedures to effectively identify, measure, monitor, and control their risk exposures. Moreover, the technical note stresses the importance of implementing an internal control system tailored to the size, complexity, and nature of the operations of each service provider. The internal control system should encompass essential components such as a control environment, risk assessment, control activities, self-assessment, and monitoring, as well as accounting, information, and communication mechanisms. These measures are essential for ensuring the institution's compliance, effectively managing risk, and safeguarding its stakeholders' interests.[47] By

[44] IFSB 1
[45] IFSB 12
[46] Adeyemi Adewale *et al,* IFSB Working Paper 9 (2020)
[47] IFSB, TN-3 (2019)

adhering to these recommendations, Sharīʻah-compliant P2P financing and ECF can enhance their risk management capabilities, reinforce operational resilience, and contribute to the overall stability and sustainability of the sector.

ECF primarily focuses on early-stage start-ups characterised by high risk of entrepreneurial failure. In addition, uncertainties surrounding future company performance, the quality of management, the diverse nature of businesses involved, and the underlying technology base further contribute to the risks involved.[48] It is inevitably associated with a high degree of marketing risk, funding risk, and insolvency risk.[49]

The ECF industry is also characterised by a notable risk of illiquidity and limited exit opportunities. In the absence of viable exit options, investors face the potential loss of their entire investment, even if the investee company has flourished. To ensure investor protection and mitigate losses, the availability of various exit mechanisms is crucial. Common exit methods in ECF include IPO listings, where investors can sell shares on the public market, acquisition exits through the sale of the entire investee firm, secondary sales enabling investors to sell individual shares to third parties, buyback or redemption options for the investee firm to repurchase shares, and, as a last resort, write-off and liquidation of the firm. These diverse exit avenues aim to address liquidity concerns, safeguard investor interests, and provide necessary means to exit investments.

In ECF, the challenge often lies in the valuation of fund seekers, which are mainly start-ups. Traditional methods like net asset value are not suitable for start-ups, as their value primarily lies in their growth potential rather than their tangible assets. The discounted cash flow (DCF) method is commonly used to estimate their value, but this method relies on subjective assumptions about future profits, earnings growth, and the risk-adjusted discount rate - which might involve a risk of overestimating future earnings - especially risky when platform operators lack due diligence, plausibility checks, and transparency regarding the underlying assumptions of the valuation process. In this context, the remuneration model of platforms incentivizes a focus on securing deals rather than ensuring a fair value for both investors and start-ups. Investor protection relies on transparency in corporate valuation and the associated income expectations. In case these earnings estimates prove to be inaccurate, prompt communication between the start-up company and the platform is crucial to inform investors. Both start-ups and platforms should be held accountable for deliberate overvaluation and price manipulation, ensuring a fair and transparent investment environment.[50]

The revenue model of Sharīʻah-compliant P2P financing and ECF platforms may also create conflicts of interest, as both platforms and fund seekers have incentives to tone down risks. Platforms generate income through transaction volume-based fees, which can lead to the amplification of investment opportunities and profit chances while concealing risks. This raises concerns about the transparency and accuracy of risk disclosures. It is therefore crucial to ensure the disclosure of accurate risk information to protect investors' interests and maintain platform integrity. In Malaysia, there are mandated specific requirements for P2P financing and ECF operators, focusing on a risk-scoring system to assess investment opportunities on their platforms.[51] These requirements encompass the following key elements:

48 R. J. Gilson (2003)
49 R. Lenz (2015)
50 IFSB Technical Note on Financial Inclusion (2019)
51 Lin (2017)

(i) all issues, offers, or invitations related to investment notes or Sharīʿah-compliant investment notes must undergo a comprehensive scoring process conducted by the operator; (ii) it is the operator's responsibility to establish and employ an effective risk-scoring mechanism and methodology. The final risk score assigned to the investment note or Islamic investment note must be transparently disclosed to investors during the offer phase. To ensure robust risk assessment practices, operators are required to undertake comprehensive measures including background checks on the issuer to assess the suitability and integrity of the issuer, its board of directors, senior management, and controller. Additionally, operators are responsible for verifying the viability and credibility of the issuer's business proposition. Furthermore, a thorough assessment of the issuer's creditworthiness should be carried out. By adhering to these requirements, operators can establish a solid risk assessment framework that encompasses due diligence on the issuer's background, evaluation of the business proposition, and an analysis of creditworthiness, thereby promoting a more secure and reliable environment for investors and borrowers. These regulatory measures aim to enhance transparency, provide investors with essential risk information, and ensure informed decision-making within the Sharīʿah-compliant P2P financing and ECF sectors in Malaysia.

These multifaceted risks faced by Sharīʿah-compliant P2P financing and ECF fund providers highlight the need for diligent risk assessment and mitigation strategies. Regulators should be aware of these risks and carefully evaluate specific issues that may need to be considered in regulating Sharīʿah-compliant crowdfunding platforms.

2.6. Disclosure Obligations

The survey revealed that in jurisdictions where P2P and/or ECF institutions (Sharīʿah-compliant or conventional) are regulated, specific disclosure requirements are mandated by regulators to ensure transparency and investor protection. These requirements encompass a wide range of information, such as the nature of underlying assets, compliance with Sharīʿah principles, risk factors, default rates, and voting rights. Overall, these disclosure obligations play a critical role in ensuring transparency and investor protection, and maintaining the integrity of Islamic finance within the surveyed jurisdictions. For instance, one respondent mentioned that any authorised entity who holds an Islamic endorsement would be required to make specific disclosures to the client and/or in financial statements as per the requirements in their Islamic Finance Rules. Another respondent noted that in addition to general requirements for crowdfunding platforms, Sharīʿah-compliant ECF platforms are also expected to adhere to relevant AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) standards.

Disclosures Identified by Surveyed Jurisdictions on P2P financing and ECF

General Disclosures for P2P financing and ECF Platforms (not specific to Sharīʿah-compliant models)

- General risk warning to inform users about the potential risks associated with ECF activities.
- Details regarding the remuneration of the operator, including any fees and charges imposed on investors/lenders and issuers/borrowers.
- For P2P financing, disclosure of the actual default rates as a percentage of loans entered into, along with the number and aggregate value of loans in default.
- For equity-based crowdfunding, disclosure of the failure rate of issuers who utilise the platform.

- the offering statement for each crowdfunding offer must also be provided, which should disclose any conflicts of interest.
- Information related to the rights of clients participating in ECF, including the right to withdraw commitments and lodge complaints, and any voting rights should be made available.
- Disclosure of all information that a concrete and rational investor may consider important when making an investment decision and that may affect the investment decisions:
  - developments related to the project
  - dividend distribution regarding the funded company
  - risk of insolvency
  - capital increase or decrease
  - changes in its financial situation
  - developments in the sector the funded company operates in
  - decisions of public authorities that may affect the sector the funded company operates in
  - information on its activities, changes in the management, lawsuits filed against the funded company or its directors, etc.
- Provision of real-time information by the platforms regarding the targeted and actual funds collected for each campaign, the number of investors participating, and the remaining duration of the campaign.
- Funding results to be made public via the platform for each campaign in the first business day following the end of the campaign duration.
- Issuance of a report containing at least information about total numbers of campaigns funded, not yet funded, and cancelled by platforms.
- Information about total amount of funds provided by members to campaigns funded are to be prepared and transmitted to the regulator via electronic media and made public via the platform within a period of thirty days following the end of the relevant period.
- Financial statements of the crowdfunding platform.

Disclosures specific to Sharīʻah-compliant P2P financing and ECF Platforms

- Compliance with Sharīʻah principles.
- Adherence to any relevant AAOIFI standards.

IFSB-24 on investor protection in the Islamic capital markets sets out a number of general and specific disclosure requirements for Sharīʻah-compliant P2P financing and ECF platforms.

IFSB-24 Disclosure Requirements for P2P financing and ECF Platforms

- **Clear disclosures about the extent to which the crowdfunding platform has examined any claim for Sharīʿah compliance made by an investee company,** where a firm markets individual investments that make a claim of Sharīʿah compliance to investors that wish to invest only in Sharīʿah-compliant investments.
- Adequate disclosures related to the investments and the platform itself, if a P2P financing or equity crowdfunding platform **claims Sharīʿah compliance either in terms of the platform itself or of individual investments.** The recommended disclosures include:
  (i) **Sharīʻah governance mechanisms that have been put in place, as well as the basis for the claim of Sharīʻah compliance made by the platform** (if any), and any claim made for each individual investment. With respect to P2P financing, this should also include **Sharīʻah compliance of the financing mechanism use**d. The disclosure may be, for example, in the form of a statement or **resolution of a Sharīʻah board/adviser**;
  (ii) the **main characteristics of the Sharīʿah-compliant investments and/or instruments** that are provided on the platform so as to allow potential investors to assess the nature and risks of those instruments;
  (iii) all of the specific risks for investors (without downplaying any of the risks or warnings);
  (iv) clear and comparable default data on financing portfolios, such as expected and actual default rates on past and future performance;
  (v) sufficient transparency of fees and costs;

(vi) a fair description of the likely actual return, taking into account fees, charges, and default rates;
(vii) criteria and procedures used to select projects proposed to investors;
(viii) characteristics of each business receiving investment.
(ix) rules that apply to the service provision;
(x) conflicts of interest policy;
(xi) information on the depositing of client assets and the risks particular thereto, especially in situations where the client assets are deposited with a third party;
(xii) for equity crowdfunding, descriptions of shareholders' rights, including information on the investors' rights of withdrawal or disinvesting
(xiii) the creditworthiness assessment of the issuer that was carried out by the platform/firm, where investors have a choice to invest in specific P2P agreements;
(xiv) procedure for an investor to access its money before the term of the P2P agreement has expired, including any arrangements for investors to trade their investments;
(xv) procedures that are in place for dealing with the default, as well as clear information to investors on how the platform, in normal operation, would deal with late payment or default;
(xvi) the procedures for resolution of disputes between the platform and an investor in normal operation, and **whether or not investors have access to dispute resolution schemes that take into account Sharī῾ah issues**; and
(xvii) the resolution plans that are in place in the event of the failure of the P2P financing or equity crowdfunding platform itself to minimise damage and loss to investors. Where a platform collapses and investors are left with small investments in a range of companies, disclosures should include details on how investors can, in practice, exercise their rights to receive payment, vote as shareholders, etc.

- No false or misleading information may be given to investors in the marketing of crowdfunding. Specifically, for the purpose of a considered assessment of a crowdfunding recipient and the specific offer, the crowdfunding recipient must disclose true and sufficient information about factors that are likely to materially influence a company's value or its repayment ability, before starting to acquire funds, as well as **any relevant Sharī῾ah issues that may be of importance to investors' decision.**
- The **specific features and risks associated with Sharī῾ah-compliant instruments or services** marketed by the platform operators **should be clearly and prominently outlined in its promotional materials when any benefits of such instruments or services are mentioned therein**.

IFSB-24 Disclosures related to handling of Client Assets that are also relevant to P2P financing and ECF Platforms

- The platform should also disclose to clients: information on client assets, how they are handled, and **whether or not they are held in Sharī‘ah-compliant institutions or accounts**.
- Where **money is being held in a Sharī‘ah-compliant account**, the firm should disclose to clients the **type of Sharī‘ah-compliant investment and its associated risks**.
- If **client money is held in conventional accounts or institutions (due to the unavailability of Sharī‘ah-compliant options in a jurisdiction)** the platform should **disclose the reasons for this** and obtain the consent of the client to hold its money in Sharī‘ah non-compliant accounts or institutions (e.g., conventional banks).
- In the case where client money is held in conventional accounts with the consent of the client, any accrued interest should be distributed to charity under the supervision of a Sharī‘ah board/adviser, and **the basis on which disbursements to charity are made, and the bodies to which they are made, should be disclosed to clients**.
- In the case of financial instruments that would normally be held by a custodian, the custodian does not itself need to be an Islamic institution, but must exercise its custody functions over the client's assets **without violating Sharī‘ah principles** and there must be **adequate disclosures to the client regarding the holding of client financial instruments.**

Section 3: Supervisory Framework

3.1. Supervisory Obstacles, Commitment, and Innovation

Supervising Sharīʻah-compliant P2P financing and ECF requires addressing unique challenges as they need to operate within the principles of Islamic finance, necessitating regulatory frameworks that align with Sharīʻah principles. The survey participants highlighted several challenges that impede the effective oversight of Sharīʻah-compliant P2P financing and ECF platforms, as well as their operations within their respective jurisdictions, including a lack of essential expertise to address the technical and technological aspects of supervising these platforms. Additionally, the rapid pace of technological advancements presents significant challenges for regulators in ensuring proper oversight. One respondent highlighted the issue of legal uncertainty within the regulatory frameworks, particularly when it intersects with other regulators' domains such as data protection.

In terms of resource commitment, three respondents noted an increase in dedicated resources for supervising these platforms (in their conventional and/or Islamic forms) and their operations within their jurisdiction, while one reported no change, and another indicated a decrease. Moreover, a respondent explained that in the past, ECF platforms had to undergo an Innovation Testing Licence (ITL) program similar to a sandbox. However, the current process allows new entrants to apply through the regular authorization process without the requirement of participating in this program. The survey revealed that the most prevalent regulatory and supervisory approach to monitoring innovation, specifically catering to the Sharīʻah-compliant P2P or ECF, is the use of the sandbox approach, which is used in five of the surveyed jurisdictions.

Respondents highlighted a number of areas where the IFSB can contribute to the advancement of Sharīʻah-compliant P2P financing and ECF across jurisdictions. The assistance sought from the IFSB varied depending on the industry's development and practices in a particular jurisdiction. These areas include regulatory and supervisory guidance, permissible activities, best practices, and capacity building initiatives. Each respondent provided distinct responses, reflecting varying perspectives.

- The SECP emphasised its commitment to developing Islamic finance within the non-bank financial sector. To facilitate this, the SECP is in the process of devising a time-bound action plan 2023-25, which aims to introduce regulatory amendments and promote Sharīʻah-compliant crowdfunding, including Sharīʻah-compliant P2P financing. The SECP expressed its willingness to receive guidance from the IFSB regarding the supervision of these institutions.
- The Maldives Monetary Authority highlighted the importance of regulatory requirements and infrastructure to support such innovations. The MMA recognised the potential benefits that an enabling environment for Sharīʻah-compliant crowdfunding could bring.
- The Palestine Monetary Authority emphasised the importance of establishing comprehensive guidelines regarding permitted activities, transparency, and disclosures while highlighting the roles played by central banks and capital markets authorities in facilitating and regulating Sharīʻah-compliant P2P financing and ECF activities. The PMA emphasised the need for showcasing best practices and case

studies to provide practical insights and promote a deeper understanding of effective approaches in this evolving field.

- OJK highlighted implementation of corporate governance principles for Sharīʿah-compliant ECF operators and implementation of P2P governance as an area requiring guidance**.**
- A respondent suggested that the IFSB may develop the guidance note on the supervisory and regulatory framework for the Sharīʿah-compliant ECF as well as Sharīʿah-compliant P2P financing for effective supervision of these platforms to ensure their sound operation, compliance with Sharīʿah principles, and protection of stakeholders' interests.

3.2. Impact Assessment

Effective impact assessment practices can foster responsible and sustainable practices, reinforcing the pursuit of meaningful social and environmental goals, which is also in line with the Maqasid Al Sharīʿah. Impact assessments provide valuable insights into the social and environmental outcomes generated by funded projects, allowing investors and stakeholders to assess the effectiveness of their contributions. Sharīʿah-compliant ECF and P2P platforms play a pivotal role as catalysts for social change. There are typically three types of reported approaches to conducting impact assessments, which are outlined in the figure below.

None of the surveyed jurisdictions reported implementing a periodic peer-review process that benchmarks the performances of Sharīʿah-compliant P2P or ECF activities against those in comparable jurisdictions. Such peer reviews could consider factors like the size of the economy, the geographical region, or other relevant criteria to assess and compare the outcomes. Also, informal consultations with various stakeholders, including firms, industry bodies, Sharīʿah scholars, academia, investors, fundraisers, and other relevant parties have not been carried out in any jurisdiction. These consultations could provide valuable insights and perspectives from key players in the Sharīʿah-compliant P2P financing and ECF sectors.

The surveyed jurisdictions have not yet published any call for evidence or a consultation paper to seek input and feedback from the public or industry experts. Such publications serve as important tools for gathering information, insights, and recommendations from a wide range of stakeholders, which can contribute to the development of robust regulatory frameworks and informed decision-making. These practices have not been reported among the surveyed jurisdictions, suggesting that there may be room for further exploration and potential benefits in adopting these approaches to enhance transparency, collaboration, and regulatory effectiveness in the realm of Sharīʿah-compliant P2P financing and ECF activities.

The survey indicates that, while recognising the importance of impact assessment, only a limited number of jurisdictions assess the impact of Sharīʿah-compliant P2P financing and ECF activities. These assessments are conducted through periodic reviews, diagnostic or thematic reviews, and monitoring technological advancements. Incorporating effective impact assessment practices strengthens transparency, accountability, and responsible practices within Sharīʿah-compliant crowdfunding, supporting meaningful social and environmental goals.

Section 4: Conclusion and Recommendations

The supervision of Sharīʿah-compliant P2P Financing and ECF poses unique challenges that require a commitment to regulatory oversight and innovation. Regulatory frameworks aligned with Sharīʿah principles are necessary for these platforms operating within the Islamic finance domain. The main obstacles identified include a lack of expertise and resources for supervising the technical aspects of these platforms, along with the rapid pace of technological advancements.

The expansion of Sharīʿah-compliant P2P financing and ECF platforms has presented significant opportunities for global Islamic finance. However, it introduced a new regulatory direction for financial sector regulatory and supervisory authorities (RSAs). The growing popularity and significance of Sharīʿah-compliant ECF and Sharīʿah-compliant P2P financing have prompted some regulators to establish or initiate dedicated regulatory frameworks tailored to the unique characteristics and requirements of these financial models.

This paper underscores the importance of a careful balance between the opportunities and risks inherent in Sharīʿah-compliant P2P financing and ECF to achieve financial inclusion and other regulatory objectives. It acknowledges that regulatory responses have varied across countries, leading to diverse market characteristics. Despite ongoing regulatory efforts, certain issues persist. To address this, regulators need to continually identify and assess risks, as the rapid advancements in financial technology can give rise to new risks for investors. By evolving in tandem with changing market conditions, regulations can effectively respond to emerging challenges and remain pertinent. This adaptability ensures investor protection, fosters confidence, and contributes to the long-term sustainability of the industry promoting an environment conducive to entrepreneurship and innovation.

Given that ECF and P2P activities represent a relatively new and evolving regulatory domain, it is crucial to build supervisory capacity. For example, supervisory authorities can receive comprehensive training regarding the regulatory treatment of these activities. Such training would necessitate a substantial allocation of time and resources to ensure effective implementation. Additionally, a dedicated supervision unit specifically responsible for overseeing the regulatory and supervisory functions related to Sharīʿah-compliant ECF and P2P activities is highly recommended.

Moreover, due to the direct involvement of these platforms with traditional financial services providers, increased coordination efforts will likely be required. Financial regulatory and supervisory authorities should collaborate closely with the registration and licensing authorities of Sharīʿah-compliant ECF and P2P platforms to identify and address any gaps in regulations and practices, fostering a harmonized and robust regulatory framework.

The RSA's role also includes ensuring the implementation of effective risk management systems by the service provider, particularly regarding the ongoing review and assessment of total equity exposures on a monthly basis. Additionally, the supervisor should verify that the necessary adjustments are made in the financial records to acknowledge any losses incurred from equity positions, if applicable. To support these oversight functions, the supervisor must possess the necessary legal and regulatory backing, demonstrating the authority to collect supervisory reporting templates on equity investments undertaken by the service provider.

In light of the distinctive requirements for Sharīʻah compliance in Islamic P2P financing and ECF, it is essential that RSAs ensure that platform providers establish strong Sharīʻah-compliant governance structures. These structures should be designed to uphold the principles of Sharīʻah compliance and guide the operations of the platform providers.

Supervisory sanctions and corrective actions will play a crucial role in deterring platforms from contravening regulatory requirements, which are designed to safeguard participants and the overall financial system. A proportionate approach must be taken, ensuring that the severity of sanctions and corrective actions is stringent enough to effectively discourage service providers from violating regulations while maintaining a balance that considers the diverse nature of institutions operating in this space.

The survey responses reveal that, despite certain commonalities and divergences across jurisdictions, Sharīʻah-compliant P2P financing and ECF is still at very early stages in many jurisdictions or not yet initiated. As this area continues to develop, IFSB will monitor any specific regulatory or supervisory issues that arise for Sharīʻah-compliant P2P financing and ECF and assess whether any further work is needed in the future.

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GLOSSARY

Asset–Liability Management	The ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities to achieve the entity's financial objectives.
Corporate Governance	A defined set of relationships between a company's management, its board of directors, shareholders, and other stakeholders that provides the structure to organise relationships in accordance with the laws, regulations, and by-laws of the institution and requirements of the regulatory and supervisory authorities.
Credit Risk	The risk that a counterparty fails to meet its obligations in accordance with agreed terms. Credit risk in a *takāful* or *retakāful* undertaking may arise from operational, financing, and investment activities of the funds. A similar risk may arise from *retakāful* or *retrotakāful* activities of the funds
Ijārah	A contract made to lease the usufruct of a specified asset for an agreed period against a specified rental. It could be preceded by a unilateral binding promise from one of the contracting parties. As for the *ijārah* contract, it is binding on both contracting parties.
Maqāṣid al-Sharī'ah	The fundamental principles of Sharī'ah, which aim to promote and protect the interests of all human beings and avert all harm that impairs their interests.
Muḍārabah	A partnership contract between the capital provider (*rabb al-māl*) and an entrepreneur (*muḍārib*) whereby the capital provider would contribute capital to an enterprise or activity that is to be managed by the entrepreneur. Profits generated by that enterprise or activity are shared in accordance with the percentage specified in the contract, while losses are to be borne solely by the capital provider unless the losses are due to misconduct, negligence or breach of contracted terms.
Murābahah/ Murābahah for the Purchase Orderer	A sale contract whereby the institution sells a specified asset to a customer, whereby the selling price is the sum of the cost price and an agreed profit margin. The *murābaḥah* contract can be preceded by a promise to purchase from the customer.
Mushārakah (Sharikat al-'Aqd)	A partnership contract in which the partners agree to contribute capital to an enterprise, whether existing or new. Profits generated by that enterprise are shared in accordance with the percentage specified in the *mushārakah* contract, while losses are shared in proportion to each partner's share of capital.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
Qarḍ	The payment of money to someone who will benefit from it provided that its equivalent is repaid. The repayment of the money is due at any point in time, even if it is deferred.
Sharī'ah	The practical divine law deduced from its legitimate sources: the Qur'ān, Sunnah, consensus (*ijmā'*), analogy (*qiyās*) and other approved sources of the Sharī'ah.
Sharī'ah Advisor/ Sharī'ah Advisory Firm	An individual or entity that, depending on its size and capacity, provides Sharī'ah advisory services, including Sharī'ah reviews, as well as advice on Sharī'ah-compliant product development, as part of its professional services.
Sharī'ah non-Compliance Risk	An operational risk resulting from non-compliance of the institution with the rules and principles of Sharī'ah in its products and services.
Waqf	A *waqf* (also known as hubous [حُبوس] or mortmain property) is an inalienable charitable endowment under Islamic law.
Zakāh	An obligatory financial contribution disbursed to specified recipients that is prescribed by the Sharī'ah on those who possess wealth reaching a minimum amount that is maintained in their possession for one lunar year.

APPENDIX 1 List of Survey Respondents

Institution	Jurisdiction
Central Bank of Bahrain	Bahrain
The Indonesia Financial Services Authority	Indonesia
Central Bank of Jordan	Jordan
Capital Market Authority	Kenya
Capital Market Authority	Kuwait
Central Bank of Libya	Libya
Securities and Exchange Commission Malaysia	Malaysia
Maldives Monetary Authority	Maldives
Financial Services Commission Mauritius	Mauritius
Central Bank of Oman	Oman
Securities and Exchange Commission of Pakistan	Pakistan
Palestine Monetary Authority	Palestine
Bangko Sentral ng Pilipinas	Philippines
Capital Market Authority	Saudi Arabia
Central Bank of Sudan	Sudan
Capital Markets Board of Türkiye	Türkiye
Insurance and Private Pension Regulation and Supervision Agency	Türkiye
Dubai Financial Services Authority	UAE

APPENDIX 2: Comparison of Regulatory Practices Across Jurisdictions

Jurisdictions	Has Islamic Finance Offerings	Responsible Regulatory Authorities	Regulatory Regime	Complementary Regulatory Frameworks	Specific Risks Identified	Specific disclosures	Supervisory Obstacles	Supervisory Resources and Innovations
Bahrain	• Islamic Equity Crowdfunding	• Central Bank of Bahrain	• Bespoke regulations or guidelines	• Framework for the use of intermediaries or agents • Legal framework for licensing and supervising Islamic ECF or Islamic P2P financing • Transparency and disclosure framework • Data protection framework • AML/CFT framework	• AML/ CFT risks • Technology risks • Sharīʿah non-compliance risk	• Yes	• Fast pace of technological advancement	• Not changing • Sandboxes
Indonesia	• Islamic P2P Financing • Islamic Equity Crowdfunding	• Financial Services Authority • Government Ministry, Departments, and Agencies	• Existing regulation	• Framework for the use of intermediaries or agents • Legal framework for licensing and supervising Islamic ECF or Islamic P2P financing • Investor/fundraisers protection framework • Transparency and disclosure framework • Data protection framework • AML/CFT framework	• Integrity risks • Technology risks • Sharīʿah non-compliance risk • Corporate governance • Working capital • Operational risks	• P2P financing must publish to a public statement of financial position and income statement which have been audited by a public accountant along with opinions auditor on the report referred to in the Electronic System used by the Organizer • P2P financing are required to include information or information regarding Funding period, term payments, and overall costs including benefits economics Funding clearly on the Electronic System used by the P2P financing	• Limited requisite expertise and human resource • A large number of Islamic P2P or Islamic ECF institutions operating informally outside the formal supervisory perimeter • Fast pace of technological advancement • Limitation of HR placed in supervisory departments	• Not changing • Sandboxes • RegTech
Jordan	• Islamic P2P Financing	• Central Bank of Jordan	• Existing regulation	• Legal framework for licensing and supervising Islamic ECF or Islamic P2P financing • Investor/fundraisers protection framework • AML/CFT framework	• AML/ CFT risks • Integrity risks • Technology risks • Sharīʿah non-compliance risk	-	• Assessment for the relevant risks is still unclear	• Increasing
Kuwait	• Islamic P2P Financing • Islamic Equity Crowdfunding	• Central Bank of Kuwait • Capital Markets Authority • Government Ministry,	• Bespoke regulations or guidelines • Islamic P2P financing activities is	• Data protection framework • AML/CFT framework	• AML/ CFT risks • Integrity risks • Technology risks • Legal uncertainty risk	• Yes	• Limited requisite expertise and human resources • Legal uncertainty in legal frameworks	• Decreasing • RegTech

		Departments, and Agencies	currently unregulated				• Fast pace of technological advancement	
Libya	-	• Central Bank of Libya	-	-	-	-	-	-
Malaysia	• Islamic P2P Financing • Islamic Equity Crowdfunding	• Securities Commission, Malaysia	• Bespoke regulations or guidelines	• Legal framework for licensing and supervising Islamic ECF or Islamic P2P financing • Investor/fundraisers protection framework • Transparency and disclosure framework • Data protection framework • AML/CFT framework	• AML/ CFT risks • Integrity risks • Technology risks • Legal uncertainty risk • Sharīʻah non-compliance risk	• Yes	• Talent and technology are key challenges for the supervision of P2P financing and ECF platform operators that offer Islamic finance services	• Increasing • Innovation hubs/offices
Maldives	-	• Not available in Maldives	• Unregulated	-	-	-	-	• Not applicable
Mauritius	-	• Financial Services Authority, Mauritius	• Existing regulation	• Legal framework for licensing and supervising Islamic ECF or Islamic P2P financing • Data protection framework • AML/CFT framework	• Integrity risks • Technology risks • Potential risks of inadequate or wrongful disclosures to customers/investors by the platform operators	• Yes	• Limited requisite expertise and human resources	• Sandboxes
Pakistan	• Islamic P2P Financing	• Securities Commission	• Existing regulation • Islamic ECF financing activities is currently unregulated	• Framework for the use of intermediaries or agents • Legal framework for licensing and supervising Islamic ECF or Islamic P2P financing • Investor/fundraisers protection framework • Transparency and disclosure framework • Data protection framework • AML/CFT framework	• AML/ CFT risks • Integrity risks • Technology risks • Sharīʻah non-compliance risk	• Yes • provide the disclosures as per the regulation 35E of the Non-Banking Finance Companies and Notified Entities Regulations, 2008	• A comprehensive regulatory mechanism has been provided in the Non-Banking Finance Companies and Notified Entities Regulations, 2008 for the P2P Services	• Not changing • Sandboxes
Palestine	-	-	• Ongoing efforts	-	-	-	-	• Not Applicable • Sandboxes
Philippines	-	• Securities Commission	• Ongoing efforts	• For both conventional ECF and P2P: • Framework for the use of intermediaries or agents • Legal framework for licensing and supervising Islamic ECF or Islamic P2P financing • Investor/fundraisers protection framework	• AML/ CFT risks • Integrity risks • Technology risks • Sharīʻah non-compliance risk	• Not applicable	• Limited requisite expertise and human resources for both the technical and technological aspects of Islamic P2P or Islamic ECF supervision	• Regulatory framework specific to Islamic P2P financing and ECF is yet to be established

				• Transparency and disclosure framework • Data protection framework • AML/CFT framework				
Saudi Arabia	• Islamic Equity Crowdfunding	• Capital Markets Authority	• Ongoing efforts	• Legal framework for licensing and supervising Islamic ECF or Islamic P2P financing • Investor/fundraisers protection framework • Transparency and disclosure framework • Data protection framework • AML/CFT framework	• Technology risks	• Operators of securities crowdfunding platforms in the Kingdom must obtain a CMA license to practice such an activity	• Fast pace of technological advancement	• RegTech • Regulatory Sandbox (In pervious stage) • Hubs and accelerator through Fintech Saudi an initiative established by CMA and Saudi Central Bank to develop the fintech ecosystem
Türkiye	• Available but not considered as formally rendering Islamic Alternative Finance: • Islamic P2P Financing • Islamic Equity Crowdfunding	• Capital Markets Board	• Specific regulations are issued for equity and debt-based crowdfunding, but without pronouncing any specifications or differences for Islamic versus non-Islamic models.	• Legal framework for licensing and supervising Islamic ECF or Islamic P2P financing • Investor/fundraisers protection framework • Transparency and disclosure framework • Data protection framework • AML/CFT framework	• AML/ CFT risks • Technology risks	• Yes	• Fast pace of technological advancement	• Increasing • RegTech
UAE	• Islamic Equity Crowdfunding • Available but not considered as formally rendering Islamic Alternative Finance: Islamic P2P Financing	• Capital market regulators	• Existing regulation	• Legal framework for licensing and supervising Islamic ECF or Islamic P2P financing • Investor/fundraisers protection framework • Transparency and disclosure framework • Data protection framework • AML/CFT framework	• Sharīʽah non-compliance risk	• Yes • Disclosures in communication to the client and/or in financial statements as per the requirements in the Islamic Finance Rules (IFR) Module of the DFSA Rulebook	• No specific supervisory obstacles for Islamic crowdfunding	• Not changing