

ADRESSING THE PRINCIPAL-AGENT PROBLEM IN EQUITY CROWDFUNDING IN MALAYSIA

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ABSTRACT

SMEs are the highest establishment across sectors in Malaysia. They contributed significantly towards economic growth by providing business opportunities and employment. However, limited access to finance remains as the main constraint for SMEs to grow. Recently non-formal financing intermediaries, i.e. equity crowdfunding platforms, emerges globally in providing alternative source of funds for the SMEs. It is expected that this healthy development could not be sustained due to “the principal-agent problem” between the investors and the SMEs. Therefore, this study will further explains this particular issue. This qualitative study is based on library search, document analysis, as well as interviews with representatives from equity crowdfunding platform operators. It is observed that information asymmetry is the key element where the issue heat up; where both investors and SMEs have to be more transparent. The notable conflicts are the investors do not see equity investment is a long-term investment, and the SMEs do not have proper business plan. The study recommends some suggestions based on classical and modern compensation structures of principal-agent problem to minimize the conflict between the investors and SMEs involved in equity crowdfunding.

Keywords: equity crowdfunding, funding sustainability, Malaysia, principal-agent problem, SMEs

INTRODUCTION

SMEs growth is essential in Malaysia since it is one of the main contributors of economic activity in Malaysia (Wonglimpiyarat, 2011). Since then, Malaysian government has introduced a recent instrument named financing innovation to further accelerate the growth of SMEs in Malaysia. Though many economists argue that most heavy funding goes to R&D, it turns out that most important innovations and inventions are from small firms (Freeman & Soete, 1997). However, because of several notable factors such as SMEs experience, ownership structure, and market attractiveness, most funding application were rejected (Mohamed, et al., 2011). There is no doubt that there are other financing sources than the

government; banking institutions, and non-banking institutions. However, due to several economic downturn reasons, most funding from these institutions are also being cut significantly (Habaradas, 2008).

To assist this situation, SC has proposed a regulation on equity crowdfunding in Malaysia by allowing six platforms to be operating the market. The global crowdfunding fund has grown from USD 1 billion in 2011 to USD 34.4 billion in 2015 (Estrin et al., 2016). The World Bank has estimated that by 2025 the amount could exceed \$93 billion (Kshetri, 2015). Though externally equity crowdfunding solves the issue of lack in funding, however, within the process of raising successful amount of funding through equity platforms, both SMEs and investors have to be transparent in their actions. If SMEs, the agent makes individual decision that may harm the investors' share, then the trust fades away. This issue is known in managerial economy as the principal-agent problem. Each principal and agent has on own interest to pursue that will always contradict the other party.

This paper will address the issue of principal-agent problem in equity crowdfunding, and will recommend practical solution to minimize it. It is important to understand the problem since most SMEs moved away to non-formal financing institutions in searching for new funding (Othman, Mohamad & Abdullah, 2013). Thus, the new funding intermediaries should be of zero-negative perception. Since equity crowdfunding is expected to be the one of the main sources of non-formal financing to the SMEs in next few years, this research has to be completed to ensure the SMEs to earn sustainable funding (Best et al., 2013).

This remainder of this paper are as follows. The next section provides the overall discussion of equity crowdfunding activity in Malaysia. Thereafter, we present the conceptual framework of this paper related to crowdfunding, equity crowdfunding, brief introduction on SMEs and the overview of principal agent problem. We then present the proposed methodology. Finally, we analyse and provide practical solution to the principal agent issue between SMEs and investors in equity crowdfunding activity and concludes.

EQUITY CROWDFUNDING IN MALAYSIA: STATE OF THE ART

In December 2015, Security Commission of Malaysia (SC) has announced six (6) equity crowdfunding platforms have been permitted to operate under the standard regulations (APPENDIX A). The regulation is observed to cater most part of concerns raised by the three main players in equity crowdfunding; the investors, the issuers, and the platforms though there are some amendments to be expected in the near future when the market starts to grow up soon. The-platforms are: FundedByMe , PitchIN, Eureeca, ATA Plus, Crowdo, and Crowd Plus Asia (Reform & Kiara, 2014).

The market of equity crowdfunding in Malaysia is growing significantly since a few platforms have launched their first issuers (fundraisers), and surprisingly not only local investors are interested in investing but also the international investors since some platforms joint venture with the international platforms in advertising the fundraising. The latest news has shown a perfect start for the Allix Global since their first issuer, Halal Speed Dating has reached RM204,897 only after two (2) days the campaign started with 55% were the international investors Halal Speed Dating, 2016). KRU Academy has also successfully raised RM260,000 through PitchIN, it is 104.4% over-funded (PitchIN, 2016.) TABLE 1 summarizes the licensed equity platforms in Malaysia.

Table 1: Registered Equity Crowdfunding Platforms in Malaysia

Name of Platforms	Brief Information
ATA Plus	ATA officially launched equity online platform its online platform in February 2016 and still in the process of due diligence in choosing its first issuer. The main strength of ATA Plus is its sharia-based framework applied in its services.
Crowdo	Crowdo has three offices located in Kuala Lumpur, Jakarta and Singapore. To date, it has helped companies from 5 different continents in financing from over 50 different countries.
PitchIN	PitchIN started with a reward-based crowdfunding in 2012 before obtaining equity license from SC in 2015. Among the highlighted success on its successful funding are on MDEC's social project to assist flood victims in Malaysia and on demand movies GoGo project.
Crowd Plus Asia	Crowd Plus Asia is an equity crowdfunding platform backed by Netrove Ventures Group, a regional tech-based venture capital firm and Propellar Corporation Ltd, an equity crowdfunding operator based out of Hong Kong.
Eureeca	The platform started in 2013 in UK, Eureeca is a twice-regulated platform, having received licensing from the UK Financial Conduct Authority and the Securities Commission Malaysia in 2015. From its offices in Dubai, London, and Kuala Lumpur, Eureeca offers high-yield potential investment opportunities from the Middle East, Europe, and Southeast Asia to its 10,000-strong investor network.
FundedByMe	FundedByMe initially launched as Allix Global Sdn. Bhd. before decided to merge as a joint venture partnership with FundedByMe, another equity platform based in Sweden. Its recent success on its first issuer of Halal Speed Dating that attracted majority of international investors has been seen to be its current strength.

Source: Author's Compilation

CONCEPTUAL FRAMEWORK

Crowdfunding

Crowdfunding by definition is an activity of a single entity in raising funds from a large group of public investors driven by different types of returns via platform intermediary in financing

a specific goal. With the presence of e-transaction as its unique feature in comparison to the other types of existing financing intermediaries such as angel investors, venture capitals and bank loans, there certainly attracts more funding application due to its easiness in transaction. Crowdfunding activity consists of three main actors, the investors, the platforms or intermediaries and the fundraisers (issuers), it could be either be businesses or social activists.

Since equity crowdfunding is still new, previous studies mostly exploratory in nature and focused on practices of crowdfunding, i.e. key definitions, history, regulations, and development. Schweinbacher and Larralde (2010) defined crowdfunding as an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes. Ahlers et al. (2015) have generalized crowdfunding as umbrella term used to describe an increasingly widespread form of fundraising, typically via the Internet, whereby groups of people pool money, usually (very) small individual contributions, to support a particular goal. Overall crowdfunding is the new type of financing that is open for public including retail and non-institutional investors to invest, and not restricted to certain accredited investors. The yields to investors are based on types of crowdfunding chosen by the investors.

Typically, crowdfunding types of returns are divided into four; the equity, the debt, the donation and rewards (Mollick, 2014). The four different types of returns can be shown in FIGURE 1:

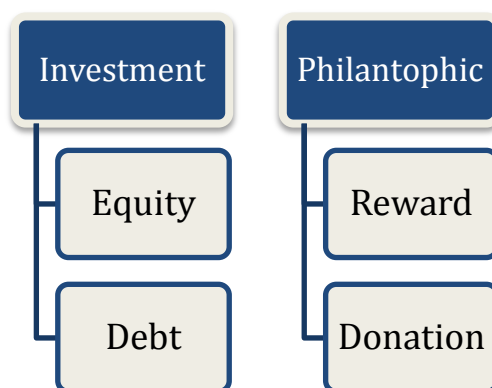


Figure 1: Type of Returns of Crowdfunding

Equity Crowdfunding

Bradford (2012) defined equity crowdfunding as a model in which funders receive an interest in the form of equity or equity-like arrangements (e.g., profit sharing) in the ventures they fund. Ibrahim (2015) mentioned that in equity crowdfunding, investors contribute money in exchange for a tangible interest in the venture they are funding, most often stock. In contrast to the other types of crowdfunding like reward-based and P2P based, equity crowdfunding focuses on the long term returns since the investors will hold the certain percentage of shares on the company invested in for a certain period of time based on contract agreed upon investment. The process of selling and buying shares could only be performed after the certain period of time passed by.

Globally, the development of equity crowdfunding market has been initiated at these two countries, the USA and the UK. AngelList in the USA and Crowdcube in the UK are the two leading equity platforms. In USA specifically, the introduction of Jumpstart Our Business

Startups (JOBS) Act in April 2012 has eliminated several strict clauses within the US securities regulatory framework for equity crowdfunding. The law was further improved in October 2015 by adding Title III specifically to encourage the growth of equity crowdfunding market in USA.(Abdullah, 2016) In terms of other countries such as New Zealand, Italy, Australia and Canada, they are also currently working on exemptions on tight securities regulation in encouraging equity crowdfunding market to grow in their respective countries.

Small and Medium Enterprises (SMEs)

SME is defined differently according to different countries, the factors include the number of employee, value of fixed assets, production capacity, basic characteristic of inputs, level of technology used, capital employed, management characteristics, economic development, and particular problems faced by SMEs (Eniola & Entebang, 2015). In Malaysia, SME Corp at 14th NSDC meeting in July 2013 has posted the updated definition that only focuses on sales turnover and the number of full- time employee, and it also differentiate between manufacturing and services (and others) sectors. Sales turnover and number of full-time employee are the two criteria in determining SME in Malaysia with the definition “OR” basis as follows. For the manufacturing, the sale turnover is not exceeding RM 50 million or the number of employee not exceeding 200 while the sale turnover is not exceeding RM 20 million or the number of employee is not exceeding 75 applied on services and others. If only one factor satisfied, it could still be considered as an SME. Suppose a manufacturing company that the sale turnover exceeds RM 50 million, but it has less than 200 full-time employees, then it can still be considered as an SME by Malaysia’s definition. TABLE 2 further summarizes the definition of SME in Malaysia:

Table 2: SME in Malaysia: Definition by Size of Operation

Category	Small	Medium
Manufacturing	Sales turnover from RM 300,000 to less than RM 15 million OR full-time employees from 5 to less than 75	Sales turnover from RM 15 million to not exceeding RM 50 million OR full-time employees from 75 to not exceeding 200
Services and other sectors	Sales turnover from RM 300,000 to less than RM 3 million OR full-time employees from 5 to less than 30	Sales turnover from RM 3 million to not exceeding RM 20 million OR full-time employees from 30 to not exceeding 75

On the latest statistics by the Department of Statistics and SME Corp, SMEs have a major percentage of overall total established sectors in Malaysia. The percentages are as follows; 98.1% are SMEs out of all services sector, 95.4% are SMEs out of all manufacturing sector, 76% are SMEs out of all agriculture sector, 87.1% are SMEs out of all construction sector, and 71.5% are SMEs out of all mining sector (SME Corp, 2016). Based on this percentage, there is a clear view that the SMEs play major role in economic activity in Malaysia. However, the turnover is that most SMEs has been struggling in obtaining funding from the existing institutions in Malaysia (Hashim, 2015). With the current presence of six-licensed regulated equity crowdfunding platforms, the issue of funding is clearly expected to be eliminated (Abdullah, 2016).

Channelling the SMEs towards equity platforms exposed the SMEs to another issue, asymmetric information. Each party, the SMEs and the investors should have own interest that may drive the SMEs to individually make decision that may harm the investors. If this situation occurs, it could cause investor's' lack of trust that may discourage the future SMEs growth. This issue is described in alternative economic theory of firm as principle-agent problem.

Principal-Agent Problem

The principle agent problem arises when one party (agent) agrees to work in favor of another party (principle) in return for some incentives. Such an agreement may incur huge costs for the agent, thereby leading to the problems of moral hazard and conflict of interest (Nu, Htay & Salman, 2013). A principal is the owner where he provides hires, monitors and provide wages to the agent who acts as a manager to perform work and provides good returns to the owner (Páez-Pérez & Sánchez-Silva, 2016). Asymmetric information between principal and agent commonly causes moral hazard and adverse selection. Moral hazard is when agent acts undesirably by performing incorrect action while adverse selection is when the agent acts aggressively by making risky action. In the case of moral hazard, it is possible that SMEs cause the investors' share to lose if they do not make consultation, and ending up that the decision is incorrect. On the other side, adverse selection is when the result has not been confirmed but the decision made has been seen as very risky ("MBA4", 2016). FIGURE 2 below depicts the basic model of Principal-Agent problem.

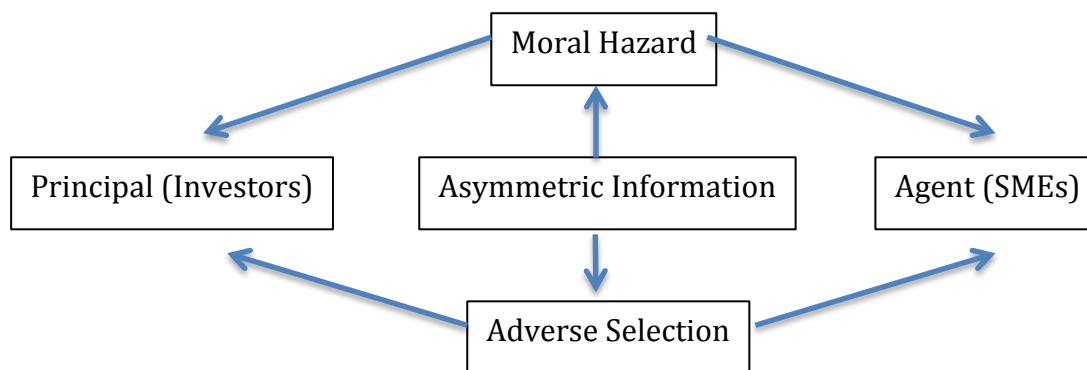


Figure 2: Basic model of Principal-Agent Problem

The study of principal-agent problem resides under the framework of good governance. The principal is one who delegates a task to the agent, who performs the task on the principal's behalf. Everyday examples of this relationship include a homeowner using a real estate agent to sell a house and a business owner hiring a manager to run a store. Within this construct, whenever the two entities' interests are misaligned and monitoring is difficult, the agent could act in a way that does not reflect the principal's best interests. Such is the basis of the principal-agent problem (Shah, 2014).

Principal-agent problem is not a new phenomenon. As for Malaysia's business activities, it can be traced back as early as in 1907 when the cooperative was established to upgrade the market that was inefficient to meet the demand of the consumers (Othman et al., 2013). Co-operative is aligned to knowledge and trust(House, Butler, & Schiff, 1998), both principal and agent could minimize the conflict if these are preserved. The element of knowledge has to exist for both especially the investors as the principals.

The modern theory of principal agent theory that applies in finance suggested that there are two main causes of conflict, conflicting incentives and asymmetric information (Shah, 2014). Asymmetric information involves moral hazard and adverse selection. The theory recommended that there are two compensation structures, the incentive fee and the management fee. The incentive fee is given in non-equity form and the management fee is in equity form. Since the issue rises in the context of equity financing, the ideal mode of solution is through management fee. FIGURE 3 below summarizes the model of compensation structure of Principal-Agent problem.

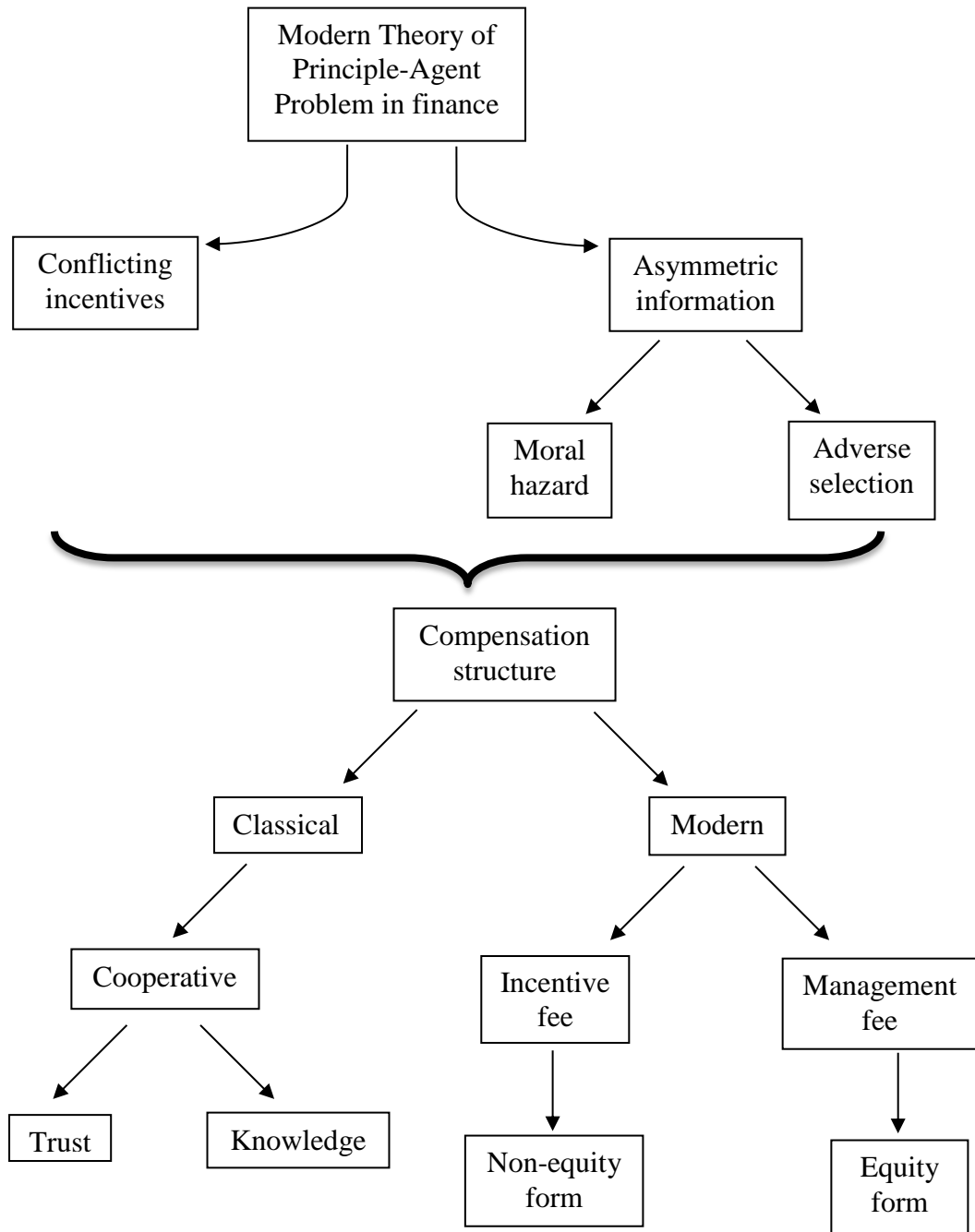


Figure 3: Model of Compensation Structure for Principal-Agent Problem

METHODOLOGY

This qualitative study is based on library search, document analysis and interview, in order to cover both theoretical and practical aspects. The former is used to obtain overview of the concept regarding principal-agent problem and the development of the equity crowdfunding globally and Malaysia particularly. The sources were extracted from selected journal articles, news, working papers, and related websites.

Three (3) members of Board of Directors (BoDs) from two (2) different licensed Malaysia equity crowdfunding platform operators were interviewed; they requested that their identities are kept anonymous. Semi structured interview was used since it is well suited for the exploration of opinions of respondents to the new, complex and sensitive issue, and the other advantage is it provides different vocabularies in terms of the answers given by respondents making it more reliable than structured interview (Barriball & While, 1994). Clearly, the validity and reliability of this type of interview depends on equivalence of meaning on the responses, but not on the repeated words (Denzin, 1978).

The purpose of these interviews were first to obtain overall insight on current practice of equity crowdfunding activity in Malaysia, then it specifies to possible issue of conflict that may arise in between SMEs and investors. The responses from the platform operators are expected to represent most concerns from investors and SMEs since they are the intermediaries that observe the activity of both principal (investors) and agent (SMEs). Since most funding are in the campaign stage, the interview questions mainly focus on specific principal agent issues that may rise during pre and post-campaign.

Questions were strictly designed based on four main criteria. The style of the questions is open ended and there is no binary. Second, leading questions are not included to avoid biasness. Third, conciseness is kept by ensuring the questions short and specific. Lastly, the language used is understood by the participants; given their knowledge, age, gender, and cultural background (Newton, 2010).

INVESTORS-SMES PROBLEM: THE CASE OF EQUITY CROWDFUNDING

Equity crowdfunding is not new only in Malaysia, but the global market too. Thus, not every platform has launched first issuers yet since there have to be very careful in determining the right candidate to choose from thousands of applications.

Based on the library search, document analysis and interviews with the three (3) BODs of equity crowdfunding platform operators, there is clear evidence of high risk of occurrence of principal-agent problem between the investors and the SMEs. All platforms agreed that the risk should be mitigate to safeguard good reputation of the investors. Though the issue of principal-agent discussed in this context is between the investors and SMEs as issuers, the platforms actually hold the biggest responsibilities as the intermediaries by selecting only capable SMEs to be their issuers in sustaining existing and future investors through their platforms.

In addition, the possible set of issues discussed in this study can be categorized into two parts:-

a) **Tendency of investors to focus on short-term performance**

Most investors only focus on short term returns, so the expectation to the agent (issuer) is to run the business and obtain revenues in short time. The pressure on the issuer is always one of the reasons that issuer has the tendency to perform “hidden action” (Cvitanić & Zhang, 2013). The less-patient investors who have not yet experienced in equity

investment are the common examples that could cause hidden action performed by the agent.

- b) Lack of business plans quality proposed by the SMEs
As the first category discussed on the weakness from the investors, the principal side, this category focus on the SMEs, the agent side. Most observation on the SMEs development in Malaysia is seen to be less competitive because they lack of quality business plan (Quader & Abdullah, 2008). Some constructive comments suggested that most SMEs should work as hard as their objectives, so they know the real expectation from the investors. In principal-agent problem, one of the solutions for the agent to cooperate well with the principal is that they should be given compensation for the extra income they generated, but is this an ideal solution in equity crowdfunding business model?

Recommendations for minimizing the conflict

After going through several literature and interviews on reducing the principal-agent problem at the early stage, we suggest there are three notable approaches that can be practically implemented by both SMEs and investors in Malaysia.

- a) Practicing risk sharing approach (action taken by Investors - ‘cooperative’)
The Investors have to be given consultation about how equity crowdfunding is different to the other types of crowdfunding, it is merely a long term investment that ask both parties to share both risk and benefits throughout the business activity. Thus, generating profits in terms of share of the company, and the exit plan is not as simple as giving loans. This step is very important in avoiding the principal to act as a dictator. As a direct result, it also discourages the SMEs to perform hidden action, which could worsen investors’ shares (Cvitanić & Zhang, 2013).
- b) Promoting compensation in the second wave campaign (action taken by Investors - ‘management fee’)
As noted, most platforms allow the second wave campaign to be re-launched a year after its successful in achieving past targets. Here, the investors could create a pre-contract to guarantee that they would add up a certain amount of their investments in the second campaign next year given the project is successful. This incentive allows the issuer to come out with a good business strategy to ensure that the projects funded to be successful (Goetzmann & Ingersoll, 2003).
- c) Offering increment in share for consultation that produce more revenues (action taken by SMEs - ‘management fee’)
As informed, equity crowdfunding does allow not only financial contribution but also consultation since the investors are also part of the shareholders. Thus, giving incentive for the investors to take active participation in certain decision could in addition increase the investors’ confidence, while offering them with some increment in their shares if their ideas are successful.

CONCLUSION

Accessibility to funding is one of the key elements to SMEs’ growth. With the currently restricted funding from many financial institutions in Malaysia, equity crowdfunding

investment is expected to secure the potential SMEs to accelerate further. However, there may arise a few internal issues in the equity crowdfunding that have to be adequately addressed and solved, one of the most notable threats is the principal agent problem. The findings are expected to provide insight on both investors and SMEs in ensuring each potential SME to earn successful amount of funding.

Future researches should examine, in more details, the practical case study of unsuccessful SMEs due to the principal-agent problem. Since in future it is expected that more and more SMEs are campaigning in the operators' sites, there can be many local case studies that can be researched at, and the policy implication is better than adopting case studies from the different geographical regions.

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APPENDIX A

Regulation for Equity Crowdfunding Security Commission of Malaysia

CHAPTER 12

EQUITY CROWDFUNDING PLATFORM

Definitions

- 12.1 For the purposes of this Part, unless context otherwise requires-
- | | |
|----------------|---|
| angel investor | refers to an investor that is accredited by the Malaysian Business Angels Network as an angel investor; |
| ECF operator | means a RMO who operates an ECF platform; ECF platform means an equity crowdfunding platform |
| issuer | means a person who is hosted on an ECF platform to offer its shares on the ECF platform; |
| microfund | means an entity that meets the conditions set out in paragraph 12.17. |

ECF operator

- 12.2 This chapter sets out the additional requirements applicable to an ECF operator.
12.3 Unless otherwise specified, all other requirements stated in these Guidelines are applicable to an ECF operator.
12.4 All ECF operators must be locally incorporated.

Obligations of ECF operator

- 12.5 An ECF operator must–
- carry out a due diligence exercise on prospective issuers planning to use its platform;
 - ensure compliance of its rules and take action against non-compliance by the issuer;
 - carry out investor education programmes;
 - ensure the issuer's disclosure document lodged with the ECF operator is verified for accuracy and made accessible to investors through the platform;
 - inform investors of any material adverse change to the issuer's proposal as set out under paragraph 12.08;
 - ensure that the fundraising limits imposed on the issuer are not breached;
 - ensure that the investment limits imposed on the investors are not breached;
 - obtain and retain the self-declared risk acknowledgement forms from the investors prior to them investing on an ECF platform; and
 - have in place processes to monitor anti-money laundering requirements.
- 12.6 The scope of the due diligence exercise by an ECF operator shall include taking reasonable steps to–

- (a) conduct background checks on the issuer to ensure fit and properness of the issuer's board of directors, officers and controlling owner; and
- (b) verify the business proposition of the issuer.

Operation of trust account

- 12.7 The ECF Operator shall establish and maintain in a licensed institution, one or more trust account designated for the fund raised by an issuer hosted on its platform and shall only release the fund to the issuer after the following conditions are met:
 - (a) The targeted amount sought to be raised has been met;
 - (b) There is no material adverse change relating to the offer during the offer period; and
 - (c) The cooling-off period of at least six (6) business days have expired.
- 12.8 For the purpose of subparagraph 12.07(b), a material adverse change concerning the issuer, may include any of the following matters:
 - (a) The discovery of a false or misleading statement in the disclosure document in relation to the offer;
 - (b) The discovery of a material omission of information required to be included in the disclosure document; or
 - (c) There is a material change or development in the circumstances relating to the offering or the issuer.
- 12.9 Notwithstanding paragraph 12.07, the ECF operator may impose any other additional conditions precedent before releasing the fund, provided that they serve the investors' interest.

Managing conflict of interest

- 12.10 An ECF operator must establish a framework which sets out policies and procedures to effectively and efficiently manage conflicts of interest including potential conflicts of interest which may arise in the course of the ECF operator carrying out its functions. Such conflicts must be managed in a timely manner.
- 12.11 The ECF operator, including its individual directors and shareholders, must disclose to the public on its platform if–
 - (a) it holds any controlling shares in any of the issuers hosted on its platform; or
 - (b) it pays any referrer or introducer, or receives payment in whatever form, including payment in the form of shares, in connection with an issuer hosted on its platform.
- 12.12 Notwithstanding paragraph 12.11, an ECF operator's shareholding in any of the issuers hosted on its platform shall not exceed 30%.
- 12.13 The ECF operator is prohibited from providing any financial assistance to investors to invest in shares of an issuer hosted on its platform.

Permitted and non-permitted Issuers

- 12.14 Only locally incorporated private companies (excluding exempt private company) will be allowed to be hosted on the ECF platform.
- 12.15 The following entities are prohibited from raising funds through an ECF platform:
 - (a) commercially or financially complex structures (i.e. investment fund companies or financial institutions);

- (b) public listed companies and their subsidiaries;
 - (c) companies with no specific business plan or its business plan is to merge or acquire an unidentified entity (i.e. blind pool);
 - (d) companies other than a microfund that propose to use the funds raised to provide loans or make investment in other entities;
 - (e) companies other than a microfund with paid up share capital exceeding RM5 million; and
 - (f) any other type of entity that is specified by the SC.
- 12.16 An issuer shall not be allowed to be hosted concurrently on multiple ECF platforms.
- 12.17 An ECF operator may allow for the hosting of a microfund on its platform provided that these entities–
- (a) are registered with the SC as a venture capital company;
 - (b) have a specified investment objective; and
 - (c) only raise funds from sophisticated investors and angel investors.

Limits to fund raised on an ECF Platform

- 12.18 The following limit shall apply to any issuer being hosted on an ECF platform:
- (a) An issuer can only raise up to RM3 million within a 12-month period, irrespective of the number of projects an issuer may seek funding for during the 12-month period; and
 - (b) An issuer can only utilise the ECF platform to raise a maximum amount of RM5 million, excluding the issuer’s own capital contribution or any funding obtained through private placement exercise.
- 12.19 Paragraph 12.18 shall not apply to a microfund hosted on an ECF platform.

Disclosure requirements

- 12.20 An issuer proposing to be hosted on an ECF platform shall submit the relevant information to the ECF operator including the following:
- (a) Information that explains the key characteristics of the company;
 - (a) Information that explains the purpose of the fund raising and the targeted offering amount;
 - (b) Information relating to the business plan of the company; and
 - (c) Financial information relating to the company:
 - (i) For offerings below RM300,000: Certified financial statements/information by the issuer’s management, if it is required by the operator for verification purposes;
 - (ii) For offerings between RM300,000 – RM500,000:
 - (A) Audited financial statements of the company where applicable (e.g. where the issuer has been established for at least 12 months); and
 - (B) Where audited financial statements are unavailable (e.g. the issuer is newly established), certified financial statements/information by the issuer’s management;
 - (iii) For offerings above RM500,000: Audited financial statements of the company
- 12.21 An ECF operator must disclose and display prominently on its platform, any relevant information relating to ECF including–

- (a) information relating to issuer as specified under paragraph 12.20;
- (b) investor education materials;
- (c) information on how the platform facilitates the investor's investment including providing communication channels to permit discussions about issuers hosted on its platform;
- (d) general risk warning and appropriate risk disclosure in participating in ECF;
- (e) information on rights of investor relating to participation in ECF;
 - (a) information about complaints handling or dispute resolution and its procedures; and
 - (b) the fees, charges and other expenses that it may charge to, impose on an issuer or investor.

Investment Limit

- 12.22 A person may invest in any issuer hosted on the ECF platform subject to the following limits–
- (a) sophisticated investors: No restrictions on investment amount;
 - (b) angel investors: A maximum of RM500,000 within a 12-month period; and
 - (c) retail investors: A maximum of RM5,000 per issuer with a total amount of not more than RM50,000 within a 12-month period.
- 12.23 The investment limit specified in paragraph 12.22 is applicable to all local and foreign investors.