

[Exposure Draft (GS 1/2021) v12.0 of the]

AAOIFI Governance Standard (GS)___

Islamic Crowdfunding Governance

Contents

Contents	2
Preface	6
Introduction	7
Overview	7
Rationale for issuing this standard.....	7
Objectives of the standard.....	8
Scope of the standard	8
Definitions.....	8
Part A: Core principles for governance of Islamic crowdfunding	14
Key pillars of institutional governance.....	14
Key stakeholders of Islamic crowdfunding	14
Core principles of governance for Islamic crowdfunding	14
Part B: Islamic crowdfunding governance and control structure	17
Key elements of Islamic crowdfunding governance and control.....	17
The operator	17
Eligibility criteria for Islamic crowdfunding	17
Regulatory approvals for Islamic crowdfunding	17
Applicability of relevant AAOIFI Governance Standards (GSs)	17
Shari'ah compliance function	17
Capital and liquidity maintenance by the operator	18
Use of technology and automated processes.....	18
Governance and control requirements applicable to various other elements	18
Part C: General and pre-issuance considerations	19
Appointment, due diligence and independence of the trustee	19
Maintaining and releasing funds under trust	19
Issuer's criteria, due diligence and capacity building	20
The issuer's criteria	20
The issuer's due diligence	21
The issuer's capacity building – responsibility of the operator	22
Investors' criteria and categories.....	22
Shari'ah Supervisory Board – appointment and composition	23
Shari'ah Supervisory Board (SSB).....	23
SSB composition.....	23
Primary responsibilities and authority of the SSB	24

Right to information and records.....	24
Terms of reference and independence.....	24
Accountability	24
Shari'ah approval and Fatwa.....	24
Audit and governance committee (AGC)	26
Appointment and composition	26
Terms of reference.....	26
Prospectus.....	26
The platform	27
Platform capability assessment	27
Part D: Considerations during the lifecycle of the ICF issuance.....	28
Responsibilities of the issuer – during the lifecycle of the ICF issuance.....	28
Utilisation of the proceeds of the ICF issuance.....	28
Management of underlying operations in line with Shari’ah principles and rules.....	28
Contractual compliance	29
The issuer’s responsibility for compliance with Shari’ah principles and rules	29
The issuer’s responsibility for good governance	29
Responsibilities of the operator – during the lifecycle of the ICF issuance	29
Shari’ah compliance function and departments.....	29
Shari’ah non-compliance risk management	30
User support and feedback.....	30
Responsibilities of the SSB during the lifecycle of the ICF issuance	30
General oversight and routine meetings	30
Periodic report	31
Change(s) in the SSB	31
Change in Fatwa.....	32
External Shari'ah audit.....	32
Part E: Considerations on changes in the ICF issuance before intended maturity.....	34
Termination of the ICF issuance	34
Restructuring or rescheduling of the ICF issuance	34
Part F: Considerations at maturity and liquidation of the ICF issuance	36
The issuer’s and the trustee’s responsibilities at maturity and liquidation	36
SSB’s responsibility at maturity and liquidation	36
Part G: Transparency and disclosure	37
Overall considerations for transparency and disclosure	37

Prospectus.....	37
Objectives.....	37
Prospectus’ coverage of disclosures for the investors’ protection.....	37
Prospectus’ coverage for Shari’ah compliance and governance	38
Communication of rights, obligations, risks and disclaimers.....	39
Rating of the ICF issuance and the issuer	39
Financial reporting	40
Financial record keeping and accounting – the operator’s responsibilities	40
Financial reports of the ICF issuance – the issuer’s responsibilities	40
Financial reporting and disclosures at the time of termination and liquidation of the ICF issuance – the issuer’s responsibilities	40
External audit of financial reports of the ICF issuance	41
Performance and compliance reporting.....	41
Communication of changes	41
Significant considerations for disclosures.....	42
User education and awareness.....	42
Effective date	43
Appendix A: Adoption of the standard	44
Members of the board.....	44
Reservation	44
Working group members	44
Executive team.....	45
Appendix B: Minimum KYC and AML / CFT requirements and investors’ due diligence.....	46
Managing AML / CFT risks.....	46
KYC and investors’ due diligence	47
Appendix C: Minimum requirements for personal information management and protection	48
Controls and ethical requirements for access and use of personal information	48
Data management and protection of personal information	49
Cyber risk management	50
Fraud risk management	50
Appendix D: Basis of conclusion	52
Is it the right time to issue a standard on Islamic crowdfunding?	52
Scope: Inclusion of commercial and social ICF issuances	52
Types of ICF issuances.....	53
The governance requirement for the operator	53

Use of the term fund provider vs. investor.....	53
The term trustee and its terms of reference	54
The function of the trustee to be performed by an automated portal	54
Collective Takaful system / mutual guarantee system	54
Cost considerations in applying governance and control requirements	55
Establishment of an audit and governance committee (AGC)	55
The level of detail in the prospectus.....	56
Appendix E: Brief history of the preparation of the standard	57

AAOIFI Governance Standard ____ “Islamic Crowdfunding Governance” is set out in paragraphs 1-135.

Where the context so requires, the use of the masculine gender shall include the feminine gender and the singular shall include the plural and vice versa and the word “person” shall include any institution, corporation, firm, partnership, body corporate or other forms of association. The table of contents and headings do not form part of the text of the standard and are for the purpose of convenience and ease of understanding and may, at times, help in the interpretation of text only.

Preface

- PR1 Technology is changing the way the business is done. Financial services are ahead of many other sectors in adopting technology in their operational models. This can be seen in both the existing financial services providers and the new entrants in the market who are introducing newer models of financial services. Accordingly, FinTech is the new buzzword in the financial sector. Islamic finance has to put priority on keeping up with this challenge and hence, the AAOIFI Governance and Ethics Board (AGEB) has taken multiple initiatives for the development of standards in different areas of FinTech. The governance standard on Islamic crowdfunding is the first of such projects.
- PR2 Islamic crowdfunding has proven to be an important source of alternative finance over the past few years. While the interest of investors towards Islamic crowdfunding is growing, certain experts view that it has an even greater potential to shape the way Islamic finance operates. It is thus necessary to ensure good governance in the whole process, as in the past, there have been many instances of scams and fraudulent practices around the globe in similar initiatives. Hence AGEB is of the view that without proper governance, Islamic crowdfunding may be at risk, or even potentially cause reputational risk to the whole Islamic finance industry.
- PR3 In Islamic crowdfunding, the investors provide their capital to the issuers through the Islamic crowdfunding platforms for either social or commercial projects. The governance systems of Islamic crowdfunding platforms and the whole process shall be held to the highest fiduciary standards to safeguard the interests of all key stakeholders, as well as, the community that Islamic crowdfunding serves.
- PR4 It is expected that Islamic crowdfunding operators who develop strong governance practices will win public confidence and, thereby, promote trust amongst their equity holders, investors and other parties dealing with them. This will eventually pave the way for a just and equitable model of Islamic finance based on such structures.

Introduction

Overview

- IN1 This standard sets out a comprehensive framework for governance of Islamic crowdfunding, which, in addition to the relevant regulatory requirements, shall be applicable to Islamic crowdfunding operations.
- IN2 This standard covers several significant aspects of governance and control systems including compliance with Shari'ah principles and rules, safeguarding the interests of various stakeholders, information technology and data protection, as well as, the governance structure applicable to each Islamic crowdfunding issuance (ICF issuance) at the different stages of transaction (as relevant to different stakeholders and elements of Islamic crowdfunding). It also emphasises on the transparency and disclosure requirements to ensure fair and equitable transactions, to the maximum extent possible.
- IN3 The standard applies the principles of proportionality in different aspects of governance structures, taking into consideration that the industry is in its infancy and that one size may not fit all.

Rationale for issuing this standard

- IN4 Islamic crowdfunding is one of the fastest growing avenues of Islamic FinTech and its significance is expected to increase in the times to come. Moreover, it has the potential to significantly change the direction and approaches of Islamic finance products, services and intermediation models in the future. In view of the same and duly considering the absence of any standard in this field, the need was felt to develop a governance standard for Islamic crowdfunding to provide the foundations for a sound, resilient, robust and risk-averse industry, operating strictly in accordance with the Shari'ah principles and rules (see paragraph 2).

[Exposure Draft (AGEB 1/2021) v12.0]
AAOIFI Governance Standard _____
Islamic Crowdfunding Governance

Objectives of the standard

1. The objective of this standard is to set out a comprehensive framework for governance of Islamic crowdfunding.
2. It is expected that the implementation of good governance practices for Islamic crowdfunding through the adoption of this standard, in turn, would help the industry achieve the following objectives:
 - a. enhance public confidence in the Islamic crowdfunding sector and resultantly, sustainability and growth of the sector; and
 - b. assist economic development through the promotion of entrepreneurship, greater availability of Shari'ah-compliant investments at retail level and the development of the social finance sector.

Scope of the standard

3. This standard shall be applicable to all types of Islamic crowdfunding initiatives and shall, to the extent as defined in this standard, be applicable on the respective elements of Islamic crowdfunding (see paragraph 11).
4. The requirements of this standard shall be applicable at the level of each ICF issuance, unless otherwise stated.
5. This standard shall be applicable to ICF issuances and the respective elements of Islamic crowdfunding in addition to and not in replacement of, the respective jurisdiction's regulatory requirements.

Definitions

6. For the purpose of clarity and interpretation of this standard, the following short definitions are relevant:
 - a. audit and governance committee (AGC) – in the specific context of this standard, is the committee constituted in line with the requirements of paragraphs 60-62;
 - b. commercial Islamic crowdfunding – is the Islamic crowdfunding whereby the underlying operations are of commercial nature and the ICF issuance carries a return to the investors;

- c. crowdfunding – is the raising of funds for specific underlying operations (a campaign and / or a project) on platforms that pool a group of investors to provide funds on a commercial or non-commercial (social) basis [Explanation: Crowdfunding is the practice of funding a project or venture by raising money (typically, but not necessarily, small amounts) from a large number of people, leveraging on financial technologies and hence, eliminating the traditional financial intermediaries from the process. The funding can be in the form of commercial funds (such as lending with returns and investment on participation basis), or in the form of non-commercial funds (such as interest-free loans and charitable donations). Crowdfunding is a form of alternative financing and investment which makes use of the easy accessibility of connected networks of people through social media and online communities to bring investors and projects together];
- d. elements of Islamic crowdfunding – are as enumerated in paragraph 11;
- e. external Shari’ah audit – in the specific context of this standard, is an independent assurance engagement to provide reasonable assurance that an ICF issuance, in respect of its entire lifecycle, complies with the Shari’ah principles and rules applicable to the relevant financial arrangements, contracts and transactions during a specific period based on a specific set of Shari’ah principles and rules contained in the criteria (for Shari’ah compliance) and is conducted in line with the requirements of Auditing Standard (AS) 6 “External Shari’ah Audit (Independent Assurance Engagement on an Islamic Financial Institution’s Compliance with Shari’ah Principles and Rules)”;
- f. Fatwa – generally refers to a Shari’ah opinion presented to a person who seeks it with regard to an incident that has already occurred (the Fatwa incident) or is expected to occur. It does not refer to answering queries pertaining to hypothetical incidences [Explanation: In the specific context of this standard, refers to the Fatwa issued by the Shari’ah supervisory board (SSB) on an ICF issuance (in line with the requirements of this standard)];
- g. internal controls – in the specific context of this standard, are considered the systems and processes established by the operator, the issuer and / or other elements of Islamic crowdfunding, in respect of an ICF issuance, for assuring the achievement of the stakeholders’ objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies, particularly the Shari’ah principles and rules;
- h. investors – include the investors, fund-providers, donors, etc. who provide funds through the crowdfunding platform for the purpose of an ICF issuance, including those who intend to earn returns through such investments, as well as, who intend to add value through impact investments (i.e., intend to achieve certain social objectives);

- i. Islamic crowdfunding – is crowdfunding that adheres to Shari’ah principles and rules in all its financial arrangements, contracts and transactions;
- j. Islamic crowdfunding issuance (the ICF issuance) – is an individual offering (or instrument) of Islamic crowdfunding and includes its entire lifecycle. It is also at times referred to as a project or a campaign;
- k. Islamic financial institution (IFI) – is a financial institution that operates in line with Shari’ah principles and rules when performing banking, insurance / Takaful, capital markets and similar activities and includes standalone branches, divisions and windows of conventional financial institutions that offer products and services in line with Shari’ah principles and rules [Explanation: In the specific context of this standard, an operator, but no other element, is considered to be an IFI unless it is established specifically as an IFI];
- l. issuer – is a person (natural or juristic) or an association of persons that raises (or seeks to raise, in the initial stage) funds for an underlying operation through an ICF issuance using a crowdfunding platform;
- m. management – in the specific context of this standard is an organ, or combination of organs, that manages an issuer’s (or the underlying operation’s) resources (including human resources). Management functions include, inter alia, risk assessment, objective setting, planning, organising, staffing, leading or directing and controlling an entity. Management includes such directors and employees who are involved in the above-mentioned functions, irrespective of their designations. It may also refer to departments and / or the whole organisational management collectively [Explanation: For the purpose of this standard, the management generally refers to the issuer’s management, unless specifically mentioned otherwise];
- n. ongoing ICF issuance – is an ICF issuance in which its structure is by its nature an ongoing transaction or venture, such as an Ijarah transaction, or a Musharaka, or a Mudaraba venture. Depending on its nature and the respective terms and conditions, it may or may not have a fixed maturity date. For avoidance of doubt, it however, does not include an equity ICF issuance which results in issuance of equity shares of the issuer, whereby the ICF issuance concludes at that stage;
- o. open-ended ICF issuance – is an ICF issuance in which the investment amount of issuance does not have a ceiling limit or a specific period for investing. Depending on its nature and the respective terms and conditions, it may or may not have an early redemption option for investors;
- p. operator – is an entity that provides Islamic crowdfunding services (directly or under a service contract with the platform provider) thus connecting the issuer to the investors in an ICF issuance;

- q. personal information (or user's personal information) – is any information in respect of an ICF issuance or the platform that relates directly or indirectly to a user, who is identified or identifiable through that information (directly, or in combination with certain other information in the possession of a person having access to such personal information);
- r. platform – is the crowdfunding system operated by (or under the instructions of) an operator that connects the investors with the issuer and the operator and normally includes a website / web portal and / or mobile application – accessible through electronic means of communication (normally, the internet);
- s. platform provider – [unless the function is performed by the operator itself] is a party that provides and manages the platform under the instructions of the operator by virtue of a service contract with the operator and is responsible for the functioning, maintenance, update and / or security of the platform;
- t. prospectus – also referred to as the information memorandum, is an offering and disclosure document that describes and presents for investment an ICF issuance to prospective investors;
- u. Shari'ah compliance – is the adherence with Shari'ah principles and rules applicable to the Islamic crowdfunding structure, relevant features, contracts and various other arrangements, including operations and activities, during the lifecycle of the ICF issuance;
- v. Shari'ah compliance department – is the department established by the operator in line with the requirements of paragraph 16 read with the requirements of GS 9 "Shari'ah Compliance Function";
- w. Shari'ah compliance function – is the function established by the operator in line with the requirements of paragraphs 16-19 read with the requirements of GS 9 "Shari'ah Compliance Function";
- x. Shari'ah principles and rules – comprise the Shari'ah principles and rules defined by the following hierarchy, as appropriate:
 - i. the Shari'ah Standards issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);
 - ii. the regulations issued by the respective jurisdiction's regulator insofar as these entail the regulatory Shari'ah requirements;
 - iii. the rulings of the central Shari'ah board of the respective jurisdiction;

- iv. the requirements of the applicable financial accounting standards as issued by AAOIFI insofar as these entail Shari'ah-related requirements; and
- v. the approvals and rulings given by the respective Shari'ah supervisory board (see paragraphs 53-59);
- y. Shari'ah supervisory board (SSB) – in the specific context of this standard, is an independent body of specialised jurists in Fiqh al-Muamalat (Islamic commercial jurisprudence) and other experts, duly entrusted with the duty of directing, reviewing and supervising the activities pertaining to an ICF issuance in order to ensure their compliance with Shari'ah principles and rules. The Fatwas and rulings of the SSB are binding on the operator, the issuer and / or all other stakeholders, in respect of all matters relating to the ICF issuance and the underlying operations during the entire lifecycle of the ICF issuance;
- z. social Islamic crowdfunding – is the Islamic crowdfunding whereby the underlying operations are of non-commercial nature and the ICF issuance either:
 - i. does not carry a return on the amount of investment to the investors (except for the return of investment amount itself to be utilised for the intended purpose) as the primary purpose of providing funds is that of impact investment (i.e., value creation through achievement of social objective(s)); or
 - ii. is in the nature of a donation (whereby the investment is utilised for value creation and the amount of investment is not intended to be returned);
- aa. SSB report – in the specific context of this standard, is a report based on a review by the SSB on the extent of an ICF issuance's compliance, in all its aspects, with Shari'ah principles and rules, after taking into consideration the reports of external Shari'ah audits and other available information;
- bb. trustee – is an entity appointed by the operator, with due consent of the issuer, to serve as an intermediary between the issuer and the investors, to hold the investment amounts until they are utilised in the underlying operations, to safeguard the interests of both parties in line with the requirements of this standard and to hold the final settlement funds in the case of termination or liquidation of the ICF issuance. The trustee, in different jurisdictions, may at times be referred to as a fiduciary or agent;
- cc. those charged with governance – in line with the International Ethics Standards Board for Accountants (IESBA) pronouncement, are "the person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel,

for example, executive members of a governance board of a private or public sector entity, or an owner-manager”¹. [Explanation: For the purpose of this standard, those charged with governance include the board of directors (or equivalent) and audit and governance (or audit) committee of the respective element, primarily the operator, as well as, the audit and governance committee of the ICF issuance duly established in line with the requirements of paragraphs 60-62];

- dd. underlying operations – are the tangible assets, usufruct and services and / or ownership of the assets of particular projects or investments or financing activities, underlying the ICF issuance and includes the respective not-for-profit or charitable activities in respect of a social ICF issuance; and
- ee. user – is a person who accesses the platform in any capacity e.g., as an issuer, investor or a subscriber to the platform.

¹ IESBA pronouncement on the definition of those charged with governance.

Part A: Core principles for governance of Islamic crowdfunding

Key pillars of institutional governance

7. Key pillars of institutional governance, in line with good practices of governance, as applicable to each ICF issuance, include the following:
 - a. Shari'ah compliance – whereby all the organs of governance including management shall ensure that the overall operations of the institution are in line with Shari'ah principles and rules;
 - b. accountability – whereby all the organs of governance including management shall have accountability for their respective functions;
 - c. fairness – whereby all the stakeholders shall be treated fairly;
 - d. transparency – whereby the affairs of the organisation shall be transparent and financial and operational reporting shall be done in a manner that nothing of significance is concealed from its respective stakeholders; and
 - e. responsibility – the organisation and its organs of governance and management shall function in a responsible manner towards its stakeholders and the society / community at large.

Key stakeholders of Islamic crowdfunding

8. The key stakeholders of Islamic crowdfunding generally include the following:
 - a. the operator;
 - b. the investors and the potential investors;
 - c. the issuer;
 - d. the trustee;
 - e. the platform provider (if different from the operator); and
 - f. the regulator(s).

Core principles of governance for Islamic crowdfunding

9. The core principles of governance for Islamic crowdfunding are developed duly considering the key pillars of institutional governance, as enumerated in paragraph 7. The governance structure and detailed mechanisms shall be established for each ICF issuance in line with these core principles and the specific requirements of this standard. Such governance structure shall take into account the governance requirements applicable to each element of Islamic crowdfunding, as relevant, especially those related to the operator and the issuer.

10. The core principles are enumerated as follows:

- a. ensuring Shari'ah compliance through effective Shari'ah compliance structures – whereby the ICF issuance complies with the Shari'ah principles and rules, in its legal form and economic reality and that adequate structures are in place to ensure the same;
- b. enhancing stakeholders' confidence – whereby appropriate governance mechanisms shall be in place to ensure that stakeholders' confidence and trust – the cornerstones upon which Islamic crowdfunding operates – are achieved through establishing a robust and resilient governance mechanism and demonstrating good practices of governance with transparency;
- c. ensuring fairness and equity – whereby the interests of different stakeholders shall be safeguarded through fair and equitable treatment and avoidance of conflict of interest for different stakeholders;
- d. assigning responsibilities appropriately – whereby those charged with governance, the management and individuals, within each element of Islamic crowdfunding understand their responsibilities and act accordingly;
- e. ensuring transparent and viable business models – whereby the business model of an ICF issuance shall be transparent, viable, sustainable and compliant with legal and regulatory requirements, in addition to the Shari'ah principles and rules;
- f. ensuring accountability – whereby the operator and the issuer in particular and other elements of Islamic crowdfunding in general, are accountable to the stakeholders with regard to their respective responsibilities;
- g. fulfilling social responsibility – whereby commercial considerations do not jeopardise the social responsibility of the respective elements;
- h. ensuring ethical behaviour and enhancing ethical business culture – whereby business values underpin the behaviour of all individuals and elements of Islamic crowdfunding to act in an ethical manner, in line with a well-documented code of ethics;
- i. ensuring competence and suitability – whereby the individuals forming part of those charged with governance (i.e., the management, SSB and other organs of governance) shall be competent and are suited to perform their functions based on a predefined set of criteria;
- j. ensuring effective supervision and oversight – whereby those charged with governance (i.e., the management and SSB) shall provide effective supervision and oversight, as appropriate to the functionalities of the ICF issuance;

- k. ensuring adequate risk management mechanism – whereby the relevant risks are identified, assessed, managed, mitigated and reported in a manner that ensures existence of a resilient and sustainable business model;
- l. ensuring adequate level of disclosure and transparency – whereby the offering documents (including the prospectus, information memorandum or similar document by whatever name called) provide adequate, transparent and accurate information without any ambiguity; the necessary risks are identified and communicated; and high-quality periodic financial reports are produced, audited and issued on a timely basis. In other words, the disclosures shall be timely, clear, concise, accurate and relevant, highlighting important information (i.e., giving due weightage to significant information) and are consistent and comparable (see paragraph 133). High levels of transparency and adequate disclosure shall also be adopted in financial and operational reporting;
- m. obtaining independent opinion on compliance with Shari’ah principles and rules – through conducting external Shari’ah audits;
- n. maintaining appropriate model for dispute resolution and arbitration – whereby a framework exists and is documented and implemented to ensure amicable dispute resolution and arbitration between stakeholders, in line with Shari’ah principles and rules;
- o. maintaining control – through the implementation of a sound internal control framework comprising of an effective control environment, assessments of key risks, control activities, timely and effective information and communication processes and oversight / monitoring processes; and
- p. ensuring effective enforcement – whereby the governance principles and standards are enforced through appropriate means and mechanisms, as well as, supervision and oversight of the same.

Part B: Islamic crowdfunding governance and control structure

Key elements of Islamic crowdfunding governance and control

11. The key elements of Islamic crowdfunding are as follows:

- a. the operator;
- b. the platform;
- c. the platform provider (if different from the operator);
- d. the trustee;
- e. the investors;
- f. the issuer; and
- g. the underlying operations.

The operator

Eligibility criteria for Islamic crowdfunding

12. Safeguarding the interests of investors and the Islamic crowdfunding industry is a requirement that shall be met in accordance with the regulations issued by the respective regulators. The operator shall ensure compliance with such regulatory requirements as applicable. In the absence of regulatory requirements, global best practices shall be observed.

Regulatory approvals for Islamic crowdfunding

13. Obtaining necessary regulatory approvals for Islamic crowdfunding is necessary for the operator to safeguard the interests of all the stakeholders, particularly the investors. These approvals shall be arranged in pursuance of rules and regulations as issued by the relevant regulators.
14. An operator shall ensure that Islamic crowdfunding services are not offered in a jurisdiction where the regulator has prohibited the crowdfunding operations (through physical and / or digital means).

Applicability of relevant AAOIFI Governance Standards (GSs)

15. The operator is the most important element for Islamic crowdfunding governance. This standard considers an operator to be an IFI and hence, it shall be subject to the requirements of the AAOIFI GSs in addition to the requirements of this standard.

Shari'ah compliance function

16. The operator shall establish a Shari'ah compliance function, including a Shari'ah compliance department (in line with the requirements of GS 9 "Shari'ah Compliance Function")

responsible for ensuring that each ICF issuance operates in full compliance with Shari’ah principles and rules.

17. The operator shall ensure that the contractual arrangements with the issuer and other parties to the ICF issuance allow for the over-arching right of the Shari’ah compliance department established by the operator to have unrestricted access to the information, documents and records related to the ICF issuance and the underlying operations.
18. Where the issuer has established a Shari’ah compliance function duly complying with the requirements of GS 9 “Shari’ah Compliance Function”, such responsibility for the Shari’ah compliance function may be passed on to the issuer with due approval of the SSB of the ICF issuance.
19. The Shari’ah compliance department shall coordinate, for the purpose of its effective functioning, with the various compliance functions i.e., the internal audit, information system (IS) and / or information technology (IT) audit functions.

Capital and liquidity maintenance by the operator

20. The operator shall maintain minimum capital and necessary liquidity commensurate with the operational risks of its ICF issuances, in line with the relevant regulatory requirements. In the absence of such regulatory requirements, global best practices shall be followed.

Use of technology and automated processes

21. The operator shall ensure the adoption of appropriate technology and technological solutions for the platform, as relevant to the entire lifecycle of the ICF issuance. Wherever possible and appropriate, the requirements of this standard may be fulfilled by the operator through the use of artificial intelligence (AI), smart contracts, machine learning and algorithms and standardised processes, among others, so as to reduce human intervention and maintain the cost effectiveness of the ICF issuance.

Governance and control requirements applicable to various other elements

22. The governance and control requirements applicable to the other elements of Islamic crowdfunding, as enumerated in paragraph 11, at different stages of the ICF issuance are prescribed in part C to part G of this standard.

Part C: General and pre-issuance considerations

Appointment, due diligence and independence of the trustee

23. Appointment of an eligible and reliable trustee is crucial for safeguarding the interests of investors. The operator (unless it is itself a scheduled / licensed bank or financial institution eligible for such purpose) shall ensure the appointment of a suitable trustee in line with the relevant regulatory requirements or global best practices.
24. The operator shall perform due diligence on the trustee prior to appointment, duly considering:
- a. regulatory approvals (if applicable);
 - b. independence and objectivity;
 - c. credit worthiness and financial stability
 - d. demonstrated compliance with and understanding of Shari'ah principles and rules; and
 - e. compliance with best practices.
25. The trustee shall be independent of the operator and the issuer and shall at all times demonstrate compliance with good governance and the ethical requirements of this standard.

Maintaining and releasing funds under trust

26. The operator shall:
- a. establish and maintain in a licensed institution one or more trust accounts designated for the funds raised by an issuer hosted on its platform;
 - b. ensure that the trust accounts are administered by an independent registered trustee; and
 - c. only release the funds to the issuer after the following conditions are met:
 - i. the targeted amount sought to be raised has been achieved;
 - ii. there is no material adverse change relating to the offer during the offer period; and
 - iii. the cooling-off period has expired.
27. A material adverse change concerning the issuer may include any of the following matters:
- a. the discovery of a false or misleading statement in any disclosure in relation to the offer;

- b. the discovery of a material omission of information required to be disclosed in relation to the offer; or
 - c. a material change or development in the circumstances relating to the offering or the issuer.
- 28. The cooling-off period is a period after the investor pledges its investment amount with a selected issuer, during which the investor may cancel the investment and be refunded without incurring any loss, except for the expenses related to transaction costs or currency exchange loss.
- 29. Where possible, the platform shall include the processes, controls, parameters and reports as appropriate to the nature and size of operations of the ICF issuance and its underlying operations. These shall include the functions which may assist the trustee in performing its responsibilities in line with the requirements of this standard, with regard to ongoing and / or open-ended ICF issuances.

Issuer's criteria, due diligence and capacity building

The issuer's criteria

- 30. The operator shall develop the suitable criteria for an issuer of the ICF issuance, duly considering the regulatory requirements of the respective jurisdiction, as well as, the requirements of this standard.
- 31. Notwithstanding anything contained in the regulations of a respective jurisdiction, the following shall not be considered eligible for being an issuer:
 - a. an entity having commercially or financially complex structures (including for example, but not limited to, investment funds or companies, or financial institutions), other than a licensed Islamic microfinance provider or a non-banking Islamic financial institution;
 - b. a public-listed company or a subsidiary thereof; and
 - c. a start-up entity with no appropriate business plan, or an entity with a bad track record of financial performance or whose owners / directors have a bad track record of financial conduct (including situations whereby the business plan is to merge with or acquire an unidentified entity i.e., blind pool).
- 32. In order to be eligible to be hosted on the platform, the issuer shall:
 - a. undergo a due diligence process (see paragraphs 33-38);
 - b. submit information relating to the business plan of the entity and its underlying operations;
 - c. submit financial information relating to the entity;

- d. submit information and documentation required by the operator to ensure legal and Shari'ah compliance and to properly define the eligibility criteria and categories of the investors;
- e. estimate the fair value of the overall business and / or the underlying operations based on universally accepted valuation methodologies (e.g., discounted cash-flow, price to earnings ratio and market benchmarking);
- f. submit information that explains the purpose of the fundraising and the targeted offering amount; and
- g. provide any other information that facilitates potential investors in their investment decision.

The issuer's due diligence

- 33. The operator shall perform due diligence on the issuer in order to assess its suitability and that of its underlying operations before hosting it on the platform. Such due diligence may be outsourced to a professional firm, particularly in the case where the size of the ICF issuance is relatively material or where the inherent risks with the issuer and the underlying operations are high.
- 34. Generally, such due diligence shall be performed in line with the relevant regulatory requirements. However, in the absence of such regulatory requirements and / or guidance, the minimum requirements contained in this standard which are in line with global best practices shall be followed.
- 35. The due diligence on an issuer, at a minimum, shall include know your customer (KYC), anti-money laundering (AML) and combating the financing of terrorism (CFT) requirements, as prescribed by the relevant regulator, along with global best practices.
- 36. The operator shall, from time to time, update its assessment performed under paragraph 35 throughout the lifecycle of the ICF issuance, in the case of an ongoing and / or open-ended ICF issuance.
- 37. The operator may, where necessary for the purpose of performing such due diligence, request the issuer to provide additional information or conduct additional procedures, such as:
 - a. provide names and locations of their suppliers;
 - b. provide banking information and relationship details with other financial institutions;
 - c. provide the corporate history of the entity;

- d. allow a field visit to ensure the existence of assets and underlying operations; and
 - e. take any other measures deemed necessary to ensure legal and Shari'ah compliance.
38. If the operator (and / or the trustee, where applicable) evaluates the investment-related risk factors to be high and amounts of investment to be relatively material, it may consider other additional measures as essential for the purpose of safeguarding the interests of the stakeholders. These additional measures may, inter-alia, include requesting the issuer to provide guarantees and / or securities and to obtain Takaful coverage for the underlying operations. It is also recommended to develop a model of mutual Takaful / mutual guarantee for various ICF issuances in a manner that can address the collective risks of Islamic crowdfunding investors (at either the jurisdiction level or the operator level in the case of sizable operators).

The issuer's capacity building – responsibility of the operator

39. The operator shall take reasonable measures (preferably through digital means) to ensure adequate training and capacity building of issuers in general, but with particular focus on the following areas in particular:
- a. compliance with Shari'ah principles and rules and contractual compliance in respect of the ICF issuance;
 - b. record keeping and financial reporting; and
 - c. global best practices of governance, as suiting to the nature and size of underlying operations, particularly the requirements of this standard.

Investors' criteria and categories

40. The operator shall ensure that investors (including prospective investors) submit, at the time of registration on the platform, all the necessary information and documents that may enable the operator to fulfil the regulatory and Shari'ah compliance requirements and to properly categorise the investors.
41. The operator shall require, where deemed necessary, investors to provide additional information and documentation to support the submitted documents, such as, evidence on the legitimacy of the source of wealth, analysis of discrepancies between income, source of wealth, overall net worth or inheritance claimed.
42. The operator shall also ensure that the investments are made subject to the limits determined by the investor's category, in line with the policies established by the operator, which are guided by the regulatory requirements and global best practices and duly considering the related risk management aspects. The investors may generally be categorised based on the following factors:
- a. whether the investor is affiliated with an investment association; and

- b. whether the investor is an individual customer (further divided into relevant classes, e.g., a retail customer or a high net worth individual) or a corporate customer.

Shari'ah Supervisory Board – appointment and composition

Shari'ah Supervisory Board (SSB)

- 43. The issuer, with due consultation with the operator, shall appoint an SSB for every ICF issuance.
- 44. The operator and the issuer, with mutual consent, may exercise the following options in order to cope with the practical difficulties in appointing an SSB for each ICF issuance by the issuer:
 - a. the operator may appoint an SSB which serves as the SSB for all the ICF issuances it manages; or
 - b. the operator may appoint an SSB comprising of a large number of members who may appoint at least three members amongst them as the SSB of a respective ICF issuance; or
 - c. the function may be outsourced to a Shari'ah advisory firm subject to the nomination of at least three identified persons to be members of the SSB, who are otherwise individually eligible for such appointment under the requirements of this standard (or relevant regulatory requirements).
- 45. Necessary regulatory approvals shall be obtained by the operator (or the issuer, as the case may be) in respect of the appointment of the SSB.

SSB composition

- 46. The SSB shall normally be constituted based on the requirements applicable to the SSB of an IFI, in line with the requirements of GS 1 "Shari'ah Supervisory Board: Appointment, Composition and Report".
- 47. However, unless contrary to the regulatory requirements, flexibility on the number of members and the eligibility for appointment may be considered acceptable. [Explanation: Where such flexibility is exercised, the number of members of the SSB may be reduced to two members. In the case of a two-member SSB, decisions on cases where there is a difference of opinion may be reached by providing the right of additional casting vote to the chairman. In such situation, the other member of the SSB shall have the right to note his dissent on the Fatwa.]

Primary responsibilities and authority of the SSB

48. The following shall be the primary responsibilities and authority of the SSB, in the different phases of the lifecycle of the ICF issuance, in line with the requirements of this standard:
- a. for all ICF issuances – provide Shari’ah approval of the ICF issuance documented in the form of a Fatwa and supervise and provide inputs on Shari’ah-related matters as and when needed, particularly with regard to any changes in the structure, etc.; and
 - b. for ongoing and / or open-ended ICF issuances – issue periodic SSB reports, if required and provide routine oversight with regard to compliance with Shari’ah principles and rules, when applicable.

Right to information and records

49. The SSB has the right to access all information, records and documents, as deemed necessary for the purpose of performing its responsibilities, from the operator, the issuer, the trustee and / or any other relevant party.

Terms of reference and independence

50. The SSB, taking into account the nature and size of the ICF issuance and the underlying operations, shall establish (with the assistance of the operator, if and when needed) its terms of reference. The terms of reference shall be established considering any specific needs of the investors, the issuer and the trustee, as well as, the requirements of GS 1 “Shari’ah Supervisory Board: Appointment, Composition and Report” and GS 2 “Shari’ah Review”.
51. The SSB shall observe the principles of independence and ethical requirements as mentioned in GS 5 “Independence of the Shari’ah Supervisory Board” and the “AAOIFI Code of Ethics for Islamic Finance Professionals”.

Accountability

52. The SSB shall be held accountable for due care with regard to its Fatwas, reports and other responsibilities as per the requirements of this standard, before the regulator, the investors and the issuer in line with the relevant regulatory guidelines.

Shari'ah approval and Fatwa

53. The SSB shall issue a well-documented Fatwa along with its reasoning / basis (jurisprudential and / or other).
54. The Fatwa shall be issued duly considering the specific requirements of AAOIFI Shari’ah Standard 29 “Stipulations and Ethics of Fatwa in the Institutional Framework” and [ED of] GS ____ “Shari’ah Decision Making” in addition to the requirements of this standard and any other applicable regulatory requirements.

55. The Fatwa document shall constitute part of the legal documentation of the ICF issuance whereby all the documentation and contracts shall state that the terms and conditions are to be interpreted and construed in the light of the Fatwa.
56. The Fatwa document, along with the reasoning, shall be made public as a mandatory part of the prospectus. An additional separate copy shall also be available to all stakeholders throughout the lifecycle of the ICF issuance, either upon request or, preferably, placed on the website of the operator (and the issuer, where applicable).
57. The Fatwa document shall include, at minimum, the following:
- a. the structure of the ICF issuance – explained in detail and in summary, with the help of process flows;
 - b. relevant contracts and documentation – as appendices;
 - c. description of underlying operations and requirements for their initial (and where necessary, ongoing) compliance with Shari’ah principles and rules;
 - d. summary of the Shari’ah principles and rules, if applicable, in the case of transfer of the ICF issuance (or its units) between two investors, or early settlement or redemption;
 - e. summary of the SSB opinion on the ICF issuance and approval of its structure, contracts and documentation – with particular emphasis on any ongoing conditions considered necessary for Shari’ah compliance;
 - f. basis of conclusion (jurisprudential and / or other) of the SSB Fatwa / Shari’ah ruling;
 - g. reservations and dissenting opinion(s), if any, along with the reason(s) for such reservations or dissent and the name and signature of the respective member(s);
 - h. signature of all consenting members of the SSB – whereby the signature on the Fatwa by the members is an indication of their approval; and
 - i. the date of issuance of the Fatwa.
58. Issuance of the Fatwa document shall be subject to the following requirements:
- a. the SSB shall review the contracts and documentations in the original text and language. In cases where the SSB or one or some of its members reviewed a translated version of the documents, this fact shall be stated in the Fatwa document; and
 - b. where the review of the entire documentation in detail is not performed by a member(s) of the SSB, such fact shall be clearly stated in the Fatwa document along with the name(s) of the SSB member(s) who have not performed such detailed review.

59. The authority of proclaiming Shari'ah compliance of an issue, at all times, shall rest solely with the SSB of the ICF issuance and / or the central Shari'ah board of the jurisdiction (where applicable).

Audit and governance committee (AGC)

Appointment and composition

60. The operator and the issuer, with mutual consent, shall appoint an AGC for the ICF issuance if:
- a. the issuer does not have an audit committee which can perform necessary functions as required by this standard;
 - b. the ICF issuance is determined by the operator, after due diligence, to have high investment risk factors in its operations or a relatively material investment (being material either for the issuer or from the perspective of the operator); and
 - c. the ICF issuance is ongoing and / or open-ended in nature.
61. The AGC, so appointed in line with paragraph 60, shall comprise of at least three members, to be nominated as follows:
- a. an independent member to be appointed as chairman of the AGC with the mutual consent of the operator and the issuer;
 - b. an equal number of members to be nominated by the issuer and the operator (e.g., including a compliance officer or another employee of the operator); and
 - c. preferably a member shall be a nominee of the trustee, where applicable.

Terms of reference

62. The terms of reference of the AGC shall be developed by the operator taking into consideration the relative nature and size of the ICF issuance and the assessment of inherent risks in the underlying operations. The operator shall also duly consider the requirements of GS 4 "Audit and Governance Committee" and the specific requirements of this standard.

Prospectus

63. Prospectus (or information memorandum or campaign document or term sheet including all forms of digital and paper-based offering documents) of the ICF issuance is the key document for all the parties and stakeholders including investors.
64. The operator shall ensure that a prospectus is issued and made available to all investors (or prospective investors) before the ICF issuance takes place. The operator shall also perform a review of the prospectus. The prospectus shall provide the necessary information about the ICF issuance and the issuer, as well as, various aspects of the ICF issuance. (See paragraph 114 for the minimum requirements for the prospectus)

The platform

Platform capability assessment

65. The operator shall ensure (preferably through an independent certification body, particularly in cases where the platform is not a dedicated Islamic crowdfunding platform or by the operator's SSB with regard to requirements (c) and (d) below) that the platform is capable of adequately handling the respective ICF issuance (before its commencement) in terms of:
- a. record keeping of the transactions;
 - b. implementation of information security controls, to safeguard the interests of the parties, particularly the investors;
 - c. implementation of preventive controls, which may be technology based and / or authorisation based, to ensure compliance with Shari'ah principles and rules and contractual compliance in respect of the ICF issuance; and
 - d. financial reporting, in line with the financial reporting requirements (in respect of ongoing and / or open-ended transactions) duly complying with the relevant Shari'ah principles and rules (preferably based on AAOIFI Financial Accounting Standards (FASs), as applicable).

Part D: Considerations during the lifecycle of the ICF issuance

Responsibilities of the issuer – during the lifecycle of the ICF issuance

Utilisation of the proceeds of the ICF issuance

66. The proceeds of the ICF issuance shall be placed with the trustee until such proceeds are used for the intended purpose and / or temporarily invested in line with the contractual terms and Shari'ah principles and rules. An external Shari'ah auditor and external auditor, where applicable, shall confirm that such actions are supported by the SSB opinion in this regard.
67. The proceeds of the ICF issuance or investments shall be governed by a prudent investment policy duly adopted by the issuer for this purpose.

Management of underlying operations in line with Shari'ah principles and rules

68. Shari'ah-compliant underlying operations distinguish an ICF issuance from similar instruments in conventional finance in general and conventional crowdfunding in particular. Hence, it is of prime importance to maintain and manage the underlying operations in line with the best practices of governance, as well as, the Shari'ah principles and rules.
69. Certain principles that assist in the management of underlying operations (that may include tangible assets, usufruct, services or social or business activities) are enumerated below:
 - a. the underlying operations that are acquired using the proceeds of the ICF issuance shall be clearly specified in the prospectus;
 - b. where an ICF issuance is purely social in nature, the value proposition and the social objectives to be achieved through the utilisation of funds shall be clearly specified in the prospectus;
 - c. the underlying operations must generate cash flow and / or flow of economic benefits for the investors and for the payment of profit and principal;
 - d. the underlying operations (or respective share therein) shall be transferred to the investors by the issuer at a fair market value, or a value reasonably close thereto. For avoidance of doubt, it is clarified that the underlying operations (or respective share therein) may not, under any circumstances, be transferred between parties at a value considered inappropriate or exploitative for either party. Where the amounts involved are material, it is highly recommended that independent valuers and experts shall be employed to assess the suitability of fair values;
 - e. any disposal, partial cessation or change in the underlying operations shall be justified from a business perspective in the best interest of the investors. Any such change shall be approved by the SSB and shall be communicated to the investors and the regulators (if applicable) in line with the relevant regulations; and

- f. the underlying operations shall not be relocated from one location to another without proper justification and any relocation shall not, under any circumstances, jeopardise the interests of the investors. Any such act, which may have a significant impact on the investors may only be performed with the pre-approval of the investors.

Contractual compliance

- 70. The issuer shall, at all times, ensure that the underlying operations are being managed in a manner that is compliant with the issuer's contractual obligations.

The issuer's responsibility for compliance with Shari'ah principles and rules

- 71. The issuer shall adopt a governance regime which encompasses the following elements for ensuring Shari'ah compliance throughout the ICF issuance's entire lifecycle:
 - a. the purpose of the ICF issuance and utilisation of its proceeds shall remain Shari'ah-compliant;
 - b. the SSB shall be made aware of any substantive changes in assets, business, documentation, terms and conditions, etc. that may have an impact on the Shari'ah compliance of the ICF issuance;
 - c. the accounting and profit / loss calculation for investors shall remain compliant with the computation mechanism that is in line with the contractual requirements duly approved by the SSB;
 - d. the underlying operations shall remain compliant with the intended purpose and other requirements of Shari'ah principles and rules; and
 - e. the proceeds of the ICF issuance shall not be invested in such extensions of product lines or new sub-projects, outside of the originally envisaged underlying operations, which are not Shari'ah compliant.

The issuer's responsibility for good governance

- 72. The issuer, throughout the lifecycle of the ICF issuance, shall ensure compliance with the best practices of corporate governance in line with the applicable regulations and the specific requirements of this standard. In the absence of any such regulations applicable to the issuer, the principal requirements of GS 6 "Statement of Governance Principles for Islamic Financial Institutions" shall be followed.

Responsibilities of the operator – during the lifecycle of the ICF issuance

Shari'ah compliance function and departments

- 73. The operator shall maintain and ensure effective functioning of the Shari'ah compliance function and Shari'ah compliance department (SCD) in line with the requirements of this standard during the lifecycle of the ICF issuance.

74. The operator may consider outsourcing the Shari’ah compliance function, without any compromise on the quality and effectiveness of the same, where such outsourcing of the function:
- a. may be considered more efficient and effective; and / or
 - b. seems more appropriate considering cost, HR or other constraints or for improving efficiency.

Shari’ah non-compliance risk management

75. The SCD shall also be responsible (in collaboration with the risk management department, where applicable) for managing Shari’ah non-compliance risks. The SCD, in this respect, shall:
- a. integrate Shari’ah non-compliance risk considerations with the operator-wide risk management;
 - b. identify, assess and measure Shari’ah non-compliance risk exposure and establish mitigating measures;
 - c. monitor the identified Shari’ah non-compliance risk exposures and the implementation of the mitigating measures; and
 - d. submit periodic reports highlighting significant Shari’ah non-compliance risks and the implementation of the mitigating measures to the management, those charged with governance of the operator and the audit and governance committee of the respective ICF issuance.

User support and feedback

76. The operator shall maintain proper communication channels to receive feedback and complaints from users.
77. The operator shall establish users’ support function / portal, commensurate with the size and nature of operations of its respective ICF issuances, to handle complaints, acknowledge their receipt and keep users updated as to the measures and actions taken to deal with the situation and to rectify any faults.
78. Each complaint shall be individually tracked until its resolution, after which user feedback will be sought for future improvement.

Responsibilities of the SSB during the lifecycle of the ICF issuance

General oversight and routine meetings

79. The SSB shall have periodic meetings and general oversight throughout the entire lifecycle of the ICF issuance.

80. The SSB shall have a suitable schedule of meetings commensurate with the nature of the ICF issuance and complexities in its structure, as well as, the risks of Shari'ah non-compliance with regard to the underlying operations.
81. The SSB shall be responsible for approving any amounts considered impermissible and / or payable to charity, in line with the Shari'ah principles and rules, related to the underlying operations and / or other aspects of the ICF issuance and shall approve the disposal of the charity funds, if any.
82. There shall be an escalation protocol where, should there be cases of recurring non-compliance with Shari'ah principles and rules and the issuer's (or other respective stakeholder's) refusal to take remedial actions, the SSB may inform regulators and / or the investors about such events and practices.

Periodic report

83. The SSB shall issue its reports on the overall state of Shari'ah compliance of the ICF issuance at a reasonable frequency in line with the regulatory requirements, but at a minimum, on an annual basis.
84. The SSB shall consider the requirements of GS 1 "Shari'ah Supervisory Board: Appointment, Composition and Report" and GS 2 "Shari'ah Review" and the specific requirements of this standard in preparing its periodic report.
85. The SSB's report shall be addressed to the investors and shall be made available to them and other stakeholders through the operator.

Change(s) in the SSB

86. Any change in the SSB shall be avoided in the normal course of business. In certain situations, it might be necessary to make changes to the SSB including circumstances beyond the control of the issuer (and / or the operator, as the case may be) in respect of one or more members of the SSB. Such situations may include the following:
 - a. death, permanent disability or lack of legal capacity;
 - b. termination by virtue of unsatisfactory performance, particularly the inability to devote necessary time, after giving due opportunity of being heard, considering the requirements of GS 1 "Shari'ah Supervisory Board: Appointment, Composition and Report";
 - c. resignation;
 - d. a rotation requirement for the SSB member in line with the pre-existing good governance practices; or
 - e. a legal or regulatory requirement, if applicable.

87. Where a change in the SSB is inevitable, it shall take place only with the mutual consent of the operator and the issuer.
88. Any change(s) in the SSB shall be communicated to the investors, regulators and other relevant stakeholders without delay, as appropriate.

Change in Fatwa

89. The SSB may decide to change its Fatwa on account of any of the following:
- a. becoming aware of the facts and circumstances about the issuance, the issuer or the underlying operations, which it was not aware of earlier;
 - b. becoming aware of a significant change(s) in the business or operations of the issuer or the underlying operations;
 - c. becoming aware of a change(s) in the terms and conditions of the structure and relevant documentation of the ICF issuance;
 - d. considering changes (or update) in the relevance of the earlier applied Shari'ah principles and rules (such as an amendment in the AAOIFI Shari'ah Standards or Shari'ah regulations or rulings of the jurisdiction's central Shari'ah board), as applicable to the ICF issuance under which the earlier Fatwa was issued; or
 - e. becoming aware of an earlier error in the Fatwa.
90. Where the SSB decides to change its Fatwa, it shall follow the requirements of the AAOIFI Shari'ah Standard 29 "Stipulations and Ethics of Fatwa in the Institutional Framework", read with [ED of] GS ____ "Shari'ah Decision Making", applicable to a change in earlier issued Fatwa.
91. For any such change, the SSB shall consider the impact of the change in Fatwa on all stakeholders considering the principles of justice and equity, particularly in cases where the change in Fatwa is a result of (c) and (d) of paragraph 89.

External Shari'ah audit

92. The operator and the issuer, with mutual consent, shall appoint an external Shari'ah auditor for each ICF issuance in cases where:
- a. the SSB considers an external Shari'ah audit to be necessary considering the Shari'ah non-compliance risks;
 - b. the ICF issuance is determined by the operator, after due diligence, to have either high investment risk factors in its operations or a relatively large size of investment; and
 - c. the ICF issuance is ongoing and / or open-ended in nature.

93. The external Shari'ah audit shall be performed at a suitable frequency, but at the minimum, on an annual basis.
94. The external Shari'ah auditors for the ICF issuance shall be appointed by the issuer. The issuer shall preferably consult the operator and the SSB and shall follow the relevant regulatory requirements in this respect.
95. The auditors of the financial statements of the issuer and / or the auditors of the financial reports of the ICF issuance shall be eligible for appointment as an external Shari'ah auditor if they meet the criteria for such appointment, unless disallowed by relevant regulator.
96. The scope of audit shall be in line with the AS 6 "External Shari'ah Audit (Independent Assurance Engagement on an Islamic Financial Institution's Compliance with Shari'ah Principles and Rules)" suitably amended according to the nature of the ICF issuance, the requirements of this standard and the specific requirements as determined by the SSB. This shall be, in particular, related to any of the issuer's responsibilities in respect of compliance with Shari'ah principles and rules, as stated in paragraph 71. In addition, the external Shari'ah auditor shall specifically report on the contractual compliance, in line with the requirements of this standard.
97. The external Shari'ah auditors' report shall be addressed to the investors of the ICF issuance and shall be made available to all relevant stakeholders.
98. The external Shari'ah auditors' draft report shall be first submitted to the SSB and shall be finalised after due consultation with the SSB, particularly, with regard to any corrective measures needed.

Part E: Considerations on changes in the ICF issuance before intended maturity

Termination of the ICF issuance

99. Termination of the ICF issuance takes place in line with the due approval of the SSB (and the regulator, if applicable) when either:
- a. a material breach of provisions of the contracts takes place which, by virtue of contractual requirements (generally defined in the prospectus) self-initiates the termination process; or
 - b. the parties to the ICF issuance i.e., the issuer and the investors mutually agree to the termination of the ICF issuance; or
 - c. the issuer exercises its unilateral option of early redemption of the ICF issuance (for example, by exercising the call option) in line with the contractual provisions and Shari'ah principles and rules; or
 - d. the trustee (on behalf of the investors) or the investors themselves exercise their option of unilateral termination of one or more of the underlying contracts, in line with the contractual provisions, including the option due to default, or potential default, of the issuer on the principal terms of the ICF issuance; or
 - e. the regulator orders an early termination for any reason that it deems fit.
100. Any termination of an ICF issuance shall be subject to the following core principles:
- a. the regulator of the respective jurisdiction, if any, or a court of law, where applicable, approves such early termination;
 - b. the SSB shall decide if the reason for early termination is acceptable in the light of Shari'ah principles and rules and if so, specifically approve the modus-operandi of the termination or early redemption;
 - c. the termination shall be made after due deliberation and communication with relevant stakeholders and with their respective approval as necessary; and
 - d. the termination, unless inevitable (including the situations whereby not terminating may increase further losses to the investors), shall not result in an unjustifiable material loss to the investors.

Restructuring or rescheduling of the ICF issuance

101. Under exceptional circumstances, a restructuring or rescheduling of the ICF issuance may occur in the following two scenarios:
- a. as a result of the issuer's default or potential default; or
 - b. as a result of acquisition, merger or the corporate restructuring of the issuer.

102. Any restructuring or rescheduling of the ICF issuance shall ensure that it is being undertaken with the intention of securing the original transaction and interests of related parties, particularly those of the investors.
103. The issuer shall ensure that a restructuring or rescheduling of the ICF issuance is performed with clearly communicated objective(s) of achieving intended result(s) and reflecting a well-thought-out business strategy. A restructuring or rescheduling transaction shall ensure that the initial equilibrium of financial benefits or rights remains intact amongst stakeholders or at least results in an equitable arrangement.
104. Any restructuring or rescheduling proposition shall be thoroughly reviewed and approved by the SSB, the investors (through the trustee, if applicable) and the regulator to ensure Shari'ah compliance, safeguarding the interests of investors and maintaining market discipline.
105. The SSB shall ensure that the compliance with Shari'ah principles and rules is not compromised during the restructuring or rescheduling process.

Part F: Considerations at maturity and liquidation of the ICF issuance

The issuer's and the trustee's responsibilities at maturity and liquidation

106. The issuer and the trustee, in their respective areas of responsibilities, shall ensure that the maturity of an ICF issuance and liquidation or settlement of the underlying operations are carried out according to the requirements set out in the transaction's structure and in line with Shari'ah principles and rules.

SSB's responsibility at maturity and liquidation

107. The SSB shall supervise, from a Shari'ah perspective, the maturity and liquidation processes of the ICF issuance.
108. Based on such supervision and duly considering the financial reporting (particularly with regard to the final distribution of returns) and external auditors' and external Shari'ah auditors' reports as applicable, the SSB shall issue a final SSB report on the ICF issuance.

Part G: Transparency and disclosure

Overall considerations for transparency and disclosure

109. The issuer shall ensure the utmost level of transparency and disclosure in line with the requirements of this standard and the global best practices.
110. It is highly recommended that the principal requirements of the Islamic Financial Services Board's (IFSB) Standard No. 19 "Guiding Principles on Disclosure Requirements for Islamic Capital Market Products (Sukuk and Islamic Collective Investment Schemes)" be followed in respect of each ICF issuance, while applying the proportionality principle.
111. The operator shall ensure the existence of a clear communication channel (including an operational mechanism of the same) for all financial and non-financial reporting from the issuer to the investors and prospective investors through digital and non-digital means.

Prospectus

Objectives

112. The operator shall adopt appropriate policies in respect of the prospectus (or other form of offering documents) to:
 - a. make the user aware of and understand the investment's risks;
 - b. promote consistency in disclosure of essential information on campaigns and services of the operator to enable comparison; and
 - c. facilitate informed decision-making by the users (particularly investors and prospective investors).
113. The prospectus shall be considered a live document if the ICF issuance is open-ended and shall accordingly be updated on a periodic basis.

Prospectus' coverage of disclosures for the investors' protection

114. A prospectus, in addition to regulatory requirements and global best practices, shall include, at a minimum, the following:
 - a. brief about the issuer, the underlying operations and the trustee together with their respective rights and obligations. These details shall cover the financial status of the issuer, past projects and nature of business, as well as, market overview and sector forecasting, etc.;
 - b. names and brief introduction of the owners, those charged with governance and the senior management of the issuer, the AGC members for the ICF issuance, as well as, the auditors of the financial statements of the issuer and the external Shari'ah auditors appointed, where applicable;
 - c. feasibility study, market analysis (or benchmarks), valuation reports (where applicable) in respect of the issuer and the underlying operations;

- d. details of profit distribution and loss sharing mechanism / ratios as applicable to the ICF issuance, where applicable;
- e. potential risks and their mitigation measures as applicable to the issuer, the ICF issuance and the underlying operations;
- f. applicable legal framework to the ICF issuance and legal jurisdiction, as well as, Shari'ah based arbitration arrangement in case of any dispute amongst the parties;
- g. details of recourse to Shari'ah-compliant credit enhancement arrangements including guarantees and undertakings and if applicable, in the case of potential default;
- h. whether or not and with what conditions, the ICF issuance is transferable from one investor to another or is subject to early settlement on an over-the-counter basis, from the Shari'ah and regulatory perspective and any limitations thereon;
- i. details of any Shari'ah-compliant options attached to the ICF issuance for conversion (to the equity of the issuer) or redemption or both, or restrictions on any redemption, as applicable;
- j. details of the mechanism for final settlement; and
- k. a summary of various scenarios that may be applicable to the ICF issuance with regard to the termination, restructuring or rescheduling and default or reissuance (if applicable).

Prospectus' coverage for Shari'ah compliance and governance

115. The prospectus of an ICF issuance shall include the following in reasonable detail:

- a. the SSB members, including their qualifications and experience, responsibilities and powers that have been vested to them through their appointment;
- b. the underlying Shari'ah-compliant contract(s), the overall structure, its relevant rules, conditions to observe and legal consequences;
- c. the Fatwa issued by the SSB in line with the requirements of this standard (see paragraph 58) being an integral part of the legal documents and serving as a reference for the interpretation of such documents; and
- d. where there is a risk that the courts of law of the relevant jurisdiction may not accept Shari'ah principles and rules, for the purpose of interpretation of the contractual agreements, such risk shall be disclosed, along with a summary of the remedial options e.g., Shari'ah based arbitration before referring to the courts of law.

Communication of rights, obligations, risks and disclaimers

116. The operator shall ensure that the following information with regard to certain rights, obligations, risks and disclaimers is either provided alongside the prospectus by the issuer and / or prominently displayed on the operator's website and portal:
- a. the rights and obligations of the user and the operator;
 - b. the fees and charges and the mechanism of charging the same and as to whether these are to be charged to the issuer or to the investors, or both (in line with the Shari'ah principles and rules); cooling-off rights including its duration, if applicable;
 - c. the privacy policy of the platform;
 - d. the disclaimer statements of the operator and / or the portal provider with regard to the extent of its involvement in the transaction execution and limitation of scope of services. It shall also include a non-guarantee on the issuer's performance and a clear statement for liability for loss, if applicable and limitation of liability;
 - e. a disclosure statement which includes the processes and measures taken by the platform and the limits and rights of the users;
 - f. a risk statement which explains the risks associated with investing through crowdfunding platforms and what users should consider before taking such risks; and which also explains the salient features of the product and risks involved therein;
 - g. a reference to the applicable code of ethics;
 - h. users disclaimer on Shari'ah compliance from the operator stating that the responsibility for Shari'ah compliance is primarily on the issuer; and
 - i. contact details of the operator and channels for feedback / enquiry.

Rating of the ICF issuance and the issuer

117. Rating services provide peer group comparability and enhance the level of confidence on publicly available investment and financing instruments.
118. It is recommended for all "relatively significant" ICF issuances that the issuers (and / or the ICF issuance) should have a published rating. [Explanation: The term "relatively significant" shall remain judgmental and shall depend on various factors specific to the respective issuer and the jurisdiction, including amongst others, the size of the ICF issuance, the risk appetite of the issuer, the operator, the trustee and the significant risk factors impacting the underlying operations].
119. The operator may consider establishing a system of internal rating / scoring for ICF issuances, in line with global best practices, in the absence of formal ratings, or where formal rating services may not be considered commercially feasible.

Financial reporting

Financial record keeping and accounting – the operator’s responsibilities

120. The operator shall maintain, for the period defined by the respective regulator (and at minimum, seven years in the absence of such regulatory requirement), all necessary records of all transactions executed through the platform.
121. The operator shall maintain such accounting records and other books as to sufficiently explain the transactions and financial position of the business and enable true and fair profit and loss accounts and balance sheets to be prepared from time to time.

Financial reports of the ICF issuance – the issuer’s responsibilities

122. The issuer shall ensure the preparation of periodic financial reports of the ICF issuance that is ongoing and / or open-ended in nature, at least on an annual basis but preferably more frequently.
123. Such financial reports shall be summarised and brief in nature and based on the accounting policies and financial reporting formats duly considering the necessary guidance from FAS 14 “Investment Funds”, FAS 34 “Financial Reporting for Sukuk-holders” and the “AAOIFI Conceptual Framework for Financial Reporting”.
124. The accounting policies adopted by the issuer in this respect shall be subject to approval from the SSB, especially with regard to the Shari’ah aspect of accounting and reporting.

Financial reporting and disclosures at the time of termination and liquidation of the ICF issuance – the issuer’s responsibilities

125. The issuer shall ensure, at the time of termination and liquidation, including early termination, that a termination report is prepared and submitted to all stakeholders, which shall include:
 - a. the final financial report of the ICF issuance, along with the computation of balances and returns and the auditors’ report thereon;
 - b. the final SSB report;
 - c. the final external Shari’ah auditors’ report, where applicable;
 - d. in the case of termination, the details and reasons behind the termination of the ICF issuance, as well as, the time frame and method of returning the investment and profit (if any) that belong to the investors;
 - e. information on any claims, pending lawsuits, regulatory investigations / audits and / or penalties that may adversely impact the settlement value to the investors; and
 - f. where practicable, disclosures in line with the relevant significant requirements of IFSB Standard No. 19 “Guiding Principles on Disclosures on Requirements for Islamic Capital Market Products (Sukuk and Islamic Collective Investment Schemes)”.

External audit of financial reports of the ICF issuance

126. The issuer shall ensure that the financial reports of the ICF issuance are subject to an external audit at a suitable frequency, but which shall be at minimum, on an annual basis.
127. The auditors for the financial reports of the ICF issuance shall be appointed by the issuer, in line with the relevant regulatory requirements, in consultation with the operator. The auditors of the financial statements of the issuer shall be eligible for such appointment, unless disallowed by relevant regulatory requirements.
128. The scope of audit shall be in line with the AAOIFI Auditing Standards (AS) and other relevant international standards and local regulations, as applicable.
129. The auditors' report shall be made available to all investors and other relevant stakeholders.

Performance and compliance reporting

130. The operator shall develop timely and meaningful:
 - a. operational / performance reports including internal reports (to better manage and direct the operations) and external reports (for stakeholders enabling them to better understand the results of investment decisions, have greater confidence to undertake transactions with issuers and exercise regulatory oversight, where applicable); and
 - b. compliance reports (to demonstrate legal and regulatory compliance).

Communication of changes

131. The operator and the issuer, in their respective areas of responsibility, shall ensure that any significant changes in the ICF issuance are communicated to all relevant stakeholders through adequate notices before the changes are introduced, or as soon as a change happens by virtue of an uncontrolled act or action. The mode of notification may be in writing, via electronic means or displayed on the platform as deemed appropriate.
132. Significant changes, as stated in paragraph 131, may include, but are not limited to:
 - a. the terms and conditions;
 - b. the salient features of the products;
 - c. the platform features and / or technology;
 - d. the underlying operations e.g., composition of assets;
 - e. the Shari'ah compliance status of the transactions or the underlying operations or the issuer;

- f. the issuer's financial and legal status; and
- g. the investors' rights and obligations.

Significant considerations for disclosures

133. Considering the core principle of disclosure, certain significant considerations to be followed by the operator and the issuer, in their respective responsibilities, shall include:
- a. individual notification to the user (whether by written notice or via electronic means) is likely to be more effective in achieving the objective of timely disclosure;
 - b. excessive information may be counter-productive and confusing to the user, thus, disclosures shall be concise and focused and where necessary, highlight the important information;
 - c. information on products and services shall be presented in a clear and easily understandable format, including where necessary, the use of short and direct sentences, boldface, key words, tables, diagrams, flowcharts and bullet lists;
 - d. very fine print and small font sizes, particularly in the published materials, shall be avoided;
 - e. contracts and product documentation shall be, as far as practicable, in a language that is easily understood by all users, with explanations of terms and significant clauses provided (with examples, where necessary);
 - f. where there is use and application of estimates, the risk of their inaccuracy, along with the sensitivity analysis where possible, shall be disclosed;
 - g. the benefits of financial products and services shall not be exaggerated and shall be based on best estimates and prudent analysis. Investment risks should have equal prominence with information on product benefits; and
 - h. prospective financial information should only be included if there are reasonable bases for its inclusion and the information is relevant for the user to make an informed decision about the product. Where the amounts involved are material, the same shall be subject to independent assessments and assurance.

User education and awareness

134. The operator shall exercise due effort to educate the users through any means reasonably possible, such as:
- a. prominently disclose and display on its platform the prospectus(es), privacy policy, risk statement, disclosure statement, charges and fees, complaints management and the terms and conditions of the ICF issuance;

- b. make available an explanation (using text, video and / or audio) of the process and significant features of the ICF issuance(s);
- c. use various methods (such as videos, articles, webinars and / or webcasts) to educate users about crowdfunding in order for them to understand the flow of investments and returns from the respective ICF issuances and to address their concerns; and
- d. continually display and update the frequently asked questions on its platform.

Effective date

135. This standard shall be effective on ICF issuances (on a prospective basis) for the financial periods beginning on or after 01 January 2023. Earlier application is encouraged.

Appendices

Appendix A: Adoption of the standard

This standard was presented for the approval in the AAOIFI Governance and Ethics Board (AGEB) meeting No. _____, corresponding to _____ and was duly approved and adopted.

Members of the board

1. Mr. Mohammad Farrukh Raza (chairman)
2. Dr. Walid Hegazy (deputy chairman)
3. Dr. Abdulbari Mashal
4. Mr. Abdullah AlMoqbel
5. Mr. Abozer Magzoub
6. Dr. Ahmet AlBayrak
7. Dr. Ali AlSartawi
8. Mr. Ebrahim Sidat
9. Ms. Ibtihal Al-Shamali
10. Dr. Kabir Hassan
11. Mr. Moosa Khoory
12. Mr. Muzammil Kasbati
13. Mr. Sohaib Umar
14. Mr. Wael Merza
15. Dr. Zahid ur Rehman Khokher

Reservation

The standard was approved unanimously.

Working group members

1. Dr. Walid Hegazy (chairman)
2. Dr. Ahmet AlBayrak
3. Dr. Ahmed Tahiri Jouti
4. Dr. Aishath Muneeza
5. Mr. Almir Colan
6. Mr. Ashar Nazim
7. Dr. Hurriyah El Islamy

8. Mr. Irfan Khan
9. Dr. Kabir Hassan
10. Mr. Muneer M. Alshater
11. Dr. Mustafa Raza Rabbani
12. Dr. Nadeem Aslam
13. Mr. Rushdi Siddiqui
14. Mr. Rashedul Hasan
15. Dr. Shehab Marzban
16. Mr. Usman Waheed

Executive team

1. Mr. Omar Mustafa Ansari (AAOIFI)
2. Mr. Umar Munshi (Ethis Group of Fintech Startups)
3. Mufti Yousuf Sultan (Ethis Group of Fintech Startups)
4. Ms. Zahra Jassim AlSairafi (AAOIFI)
5. Ms. Alyaa Adel (AAOIFI)

Appendix B: Minimum KYC and AML / CFT requirements and investors' due diligence

- B1 The operator shall follow the requirements laid down by the respective regulator(s) and / or global best practices in respect of know your customer (KYC), anti-money laundering (AML) and combating the financing of terrorism (CFT). Notwithstanding the generality of the foregoing, the operator shall perform the following minimum functions in this respect and AML, including a due diligence review of the investors.

Managing AML / CFT risks²

- B2 The operator, at a minimum, shall perform the following to manage AML risks:
- a. conduct periodic assessment of its money laundering risks (no later than every 24 months);
 - b. update its database of international and domestic sanction lists on an ongoing basis;
 - c. when necessary, subscribe to a third party's service with sufficient expertise and database;
 - d. forward queries to the relevant domestic and international agencies to ascertain whether or not the user is a listed individual or entity (in cases where the name is similar or a match with any listed entities); and
 - e. educate both users and employees against the risks of money laundering and the mitigation techniques to counter such risks.
- B3 The operator, at a minimum, shall perform the following to manage CFT risk:
- a. establish sufficient and effective internal controls and procedures to report any suspicious activities to the relevant authority;
 - b. be vigilant and pay special attention to red flags in all kinds of suspicious processes and deals that may arise during the Islamic crowdfunding lifecycle;
 - c. obtain information from reliable and up-to-date sources; and
 - d. If it suspects or has reasonable grounds to suspect that funds are the proceeds of a criminal activity, or are related to terrorist financing, it shall report promptly to the relevant authorities report promptly to the relevant authorities.

² It is advised to adopt control measures of anti-money laundering and preventing terrorism financing in accordance with the Financial Action Task Force (FATF) recommendations.

KYC and investors' due diligence

- B4 The operator shall take reasonable steps to verify the identity and background of investors to protect the financial interest of the operator and the investors and to comply with the regulatory requirements.
- B5 As a minimum process for performing the investors' due diligence, the operator shall:
- a. apply both subjective and objective measures to ensure a coherent and comprehensive screening;
 - b. ensure that the risk assessments are performed and appropriate mitigation measures are taken in relation to the product offered, the investor's background, the industry of the investment, the location of the investment etc.;
 - c. perform investors' background checks including legal history, bankruptcy status and sanction lists;
 - d. draw together all risk factors, parameters, including patterns of transactions and activities to determine how best to assess the risk of a user on an ongoing basis; and
 - e. document the rationale for any additional due diligence measures that are undertaken (or waived) compared to the standard approach.
- B6 The operator, where considered necessary due to identification of a higher risk, shall request the investors to provide additional information including:
- a. documents to ensure the legitimacy of the source of wealth and analyse the discrepancies between income, source of wealth and overall net worth; and
 - b. documents to prove inheritance claimed.

Appendix C: Minimum requirements for personal information management and protection

Controls and ethical requirements for access and use of personal information

- C1 The operator (and / or the platform provider, where relevant) shall, at all times, ensure that:
- a. the internal controls and ethical requirements with regard to the access and use of personal information are recorded in the form of a policy and communicated to all its concerned employees whereby all concerned employees shall sign a declaration on adherence to such policy. The policy shall have a reference to the AAOIFI Code of Ethics for Islamic Finance Professionals and shall be read in conjunction therewith;
 - b. it discloses to all stakeholders including investors and potential investors any conflict of interest with the issuer(s) e.g., if it holds any shares in any of the issuers hosted on its platform or if it makes a commission payment to any referrer or introducer, or it receives a compensation in whatever form, including payment in the form of shares, in connection with any issuer hosted on its platform;
 - c. access to sensitive data is provided only to authorised personnel;
 - d. it shall not engage in any conduct that is misleading or deceptive, or is likely to mislead or deceive in relation to the nature, features, terms or price of any financial service or product;
 - e. it prohibits the inducing of, or attempt to induce, a user to do an act or omit to do an act in relation to any service or product by:
 - i. dishonestly concealing, omitting or providing material facts in an ambiguous manner; or
 - ii. making any statement, illustration, promise, forecast or comparison which is misleading, false or deceptive.
 - f. it prevents exerting undue pressure, influence or using or threatening to use harassment, coercion or physical force in relation to the provision of any service or product to a user, or the payment for any service or product by a user;
 - g. it prohibits demanding payments from a user in any manner for unsolicited services or products including threatening to bring legal proceedings unless the user has communicated his acceptance of the offer for such services or products either orally or in writing; and
 - h. it prohibits exerting undue pressure on a user to acquire any service or product as a condition for acquiring another service or product.

Data management and protection of personal information

- C2 An operator shall ensure at all times and with due consultation of the platform provider, where applicable, that good practices of data management and data protection are followed. It is recommended to have an independent certification of such services in line with global best practices. The minimum requirements in this respect are summarised in paragraph C1.
- C3 Although the user is ultimately responsible to ensure that the information disclosed to the platform is accurate, timely and complete, the operator shall take reasonable measures to ascertain the same. The persons responsible for operating and managing the platform (i.e., employees of the operator or the platform provider) shall report any incident of data misrepresentation to the appropriate level of management.
- C4 Records of personal data shall be kept in a safe place, whether physically or electronically and shall only be accessible to authorised persons. The operator shall take reliable and practical measures to ensure that personal information is protected from any loss, misuse, modification, unauthorised or accidental access or disclosure, alteration or destruction.
- C5 The operator shall not process personal data unless it obtains the consent of the user, or where it is deemed necessary to:
- a. perform a contract between the parties;
 - b. address a request by the user;
 - c. comply with legal obligations;
 - d. protect vital interests that relates to the life or death of the user; or
 - e. facilitate a legal process, after fulfilling the necessary requirements.
- C6 The user shall always have the right to:
- a. request access to their personal data;
 - b. request correction and / or update of their personal data; and
 - c. have knowledge about all and each third party to whom their personal data is disclosed and the purpose thereof.
- C7 The operator shall, in no case, share the users information with a third party unless legally permitted or approved by law.
- C8 The operator may only share user information with a third party, including a related party, after obtaining prior permission of the user including updating the user about the identity of the third party and the purpose of sharing the information. The option shall always be available to the user to “opt-out” from a previously given permission.

Cyber risk management

- C9 An operator shall ensure at all times (after due consultation with the platform provider, where applicable) that good practices of cyber risk management are followed. It is recommended to have an independent certification of such services in line with global best practices. The minimum requirements in this respect are summarised in paragraph C10.
- C10 To mitigate cyber risks effectively and on a timely basis the operator (after due consultation with the platform provider, where applicable) shall:
- a. ensure that adequate resources are allocated to manage cyber risks;
 - b. ensure that the management continues to promote awareness on cyber resilience at all levels among the respective teams of the operator, the platform provider and other related elements of Islamic crowdfunding;
 - c. ensure that the impact of cyber risk is adequately assessed when undertaking new activities, including but not limited to, any investment decision, merger and acquisition, adoption of new technology and outsourcing arrangements;
 - d. ensure that there is a recovery system in place in the form of an approved and tested business continuity plan / disaster recovery plan (BCP / DRP) to deal with potential failures and risks;
 - e. establish and implement cyber risk policies and procedures that commensurate with the level of cyber risk exposure and its impact to the platform in general and to individual ICF issuances in particular. These policies and procedures shall take into account:
 - i. the sensitivity and confidentiality of data that the platform maintains;
 - ii. vulnerabilities of the platform's information systems and operating environment across the platform; and
 - iii. the existing and emerging cyber threats;
 - i. periodically update on emerging cyber threats and their potential impact to the platform; and
 - j. conduct educational sessions for employees of the operator and / or the platform provider to increase their awareness regarding cyber risk and to update them on new types of cyber risks and threats.

Fraud risk management

- C11 An operator shall ensure at all times (after due consultation with the platform provider, where applicable) that global best practices of fraud risk management are followed. It is recommended to have an independent certification of such services in line with global best practices. The minimum requirements in this respect are summarised in paragraph C13.

- C12 Prior to entering into a transaction on the platform, the users shall be required to read the prospectus and agree to the terms and conditions, the privacy policy, the investment agreements, as well as, the schedule of fees and charges.
- C13 The operator shall conduct checks on the names of potential and new users, as well as, regular checks on the names of existing users, against the names in the relevant database(s) of listed prohibited users. If there is any name match, the operator must take reasonable and appropriate measures to verify and confirm the identity of its user. Upon such confirmation, the operator shall immediately:
- a. freeze the user's funds or block the transaction, if it is an existing user;
 - b. reject the user, if the transaction has not commenced; and
 - c. report to the relevant authorities.

Appendix D: Basis of conclusion

Is it the right time to issue a standard on Islamic crowdfunding?

- BC1 AAOIFI Governance and Ethics Board (AGEB / the board) deliberated at length as to whether there is a need for the standard at this time considering that crowdfunding in general and Islamic crowdfunding in particular, is a new and evolving industry. It was also discussed that even if there is a need, would it be better served by way of developing a standard or at this stage, a guidance note may suffice.
- BC2 Certain members of the working group and the board were of the view that considering the stage of the industry, it would be more appropriate to develop a guidance note or a limited standard without putting significant governance and control requirements, which may entail an un-affordable cost at this juncture. This would hinder the growth of the industry as it will list requirements and rules that maybe strict which will decrease the demand for Islamic crowdfunding and hence, affect its development.
- BC3 The board discussed that the need for the standard is derived from the objective of protecting and safeguarding the interests of the investors. Certain members were of the view that as a standard setting body, AAOIFI is obligated to guide the Islamic crowdfunding industry at an early stage to ensure that good governance practices are followed and therefore the standard development and plan for issuance is timely.
- BC4 After due deliberation, the board decided that there is a need for issuing the standard at this stage, which shall entail all necessary governance and control requirements, but shall provide some relaxations based on the nature of the ICF issuance, as well as, considering the proportionality principle.
- BC5 The board concluded that this standard is timely as it will contribute towards reducing the risk of fraud and other associated risks and will ensure that from the very beginning, the industry is established on sound, resilient and risk-averse foundations. The board further agreed that developing a standard on Islamic crowdfunding at this point is needed from a promotion and business perspective and for the industry to develop and flourish.

Scope: Inclusion of commercial and social ICF issuances

- BC6 The scope of the standard was discussed by the board with regard to the inclusion of the different types of Islamic crowdfunding.
- BC7 The board deliberated in particular as to whether the standard should only be applicable to commercial ICF issuances or may include social ICF issuances. Certain members were of the view that the standard shall only be applicable to commercial ICF issuances because social ICF issuances may need some relaxation on the requirements.
- BC8 After due deliberation, it was agreed that the standard shall be applicable to all types of ICF issuances. In this respect, the board agreed that there are some distinctions between commercial and social ICF issuances but the board agreed that a separate standard for social

ICF issuances is not needed and that the additional aspects of social ICF issuances can be included in the same standard.

- BC9 The board concluded that a separate standard on social Islamic crowdfunding will not add any value and will be an overburden.

Types of ICF issuances

- BC10 The board elaborated on the different types of ICF issuances and were of the considered opinion that all structures may not be subject to the same requirements. It was particularly opined that certain structures that are ongoing and / or open-ended in nature, may be subject to additional requirements as compared to one-time ICF issuances. For example, certain additional requirements may be applicable due to the continuity of the ICF issuance or during early termination and maturity / liquidation stages.
- BC11 After due deliberation, the board decided that from a governance perspective, ICF issuances should be divided into ongoing, open-ended and one-time issuances and the requirements applicable to the respective types, where appropriate, shall be separately specified.

The governance requirement for the operator

- BC12 One of the most important questions, which was deliberated at length by both the working group and the board, was the structure of the standard and the governance mechanism, on whether the same shall be applicable on institutional and on individual ICF issuances.
- BC13 After due deliberation, it was agreed that from a governance perspective, the operator is to be considered an IFI and therefore shall be subject to all the relevant AAOIFI GSs.
- BC14 On the other hand, it was decided that this standard shall be structured in a manner that it shall be applicable on each ICF issuance, so that the respective stakeholders and elements may be assigned with the respective requirements relevant to its governance and controls. This was considered particularly important because many Shari'ah compliance and fiduciary requirements apply to the issuer and other elements of ICF issuance rather than the operator.

Use of the term fund provider vs. investor

- BC15 The board discussed the appropriate term to describe the fund providers / investors / donors who provide funds through the crowdfunding platform for the purpose of ICF issuances.
- BC16 The two options considered were either "investors" or "fund providers". Certain members considered the term fund provider to be more appropriate as certain ICF issuances are of social nature. In their view, the term fund provider includes the social aspect of Islamic crowdfunding while investor is generally perceived to have a commercial connotation.

- BC17 After due deliberation, the board decided to use the term investor, as an all-encompassing term, considering that the broader meaning of investment includes both impact investment and social investment.

The term trustee and its terms of reference

- BC18 The working group and board had deliberations at length over the scope of involvement of the trustee during the lifecycle of the ICF issuance and the different terms to describe the role of the “trustee” including trustee, nominee, agent or fiduciary.
- BC19 Certain members were of the view that role of the trustee shall end at the time of initial ICF issuance and once the funds are received and passed on to the issuer, such role shall end. It was mentioned that this is the current practice of the industry. On the other hand, it was the view of certain members that in ongoing and / or open-ended ICF issuances, the involvement of the trustee shall continue throughout the entire lifecycle of the ICF issuance and shall only end at the time maturity of the transaction. It was also mentioned that certain regulations and global best practices have such role with different terms which continues during the continuity of the ICF issuance.
- BC20 After due deliberation, it was decided to use the term trustee, reflecting the true nature of the role.
- BC21 It was further decided that in the case of ongoing and / or open-ended ICF issuances, the role of trustee shall not end after receiving the funds, rather it shall continue until maturity in order to safeguard the interest of all stakeholders, particularly the investors.

The function of the trustee to be performed by an automated portal

- BC22 The working group and the board discussed the role of the trustee and the possibility of replacing it by an automated portal (or a module within the platform) to avoid additional costs and to utilise the technology in the best interest of the stakeholders.
- BC23 Certain members supported the idea but the majority was of the view that although the performance of the trustee functions by an automated portal can be implemented (subject to the regulators’ approval) and can prove to be a good initiative for the purpose of cost optimisation and streamlining of processes, the appointment of the trustee as a third party is of utmost importance to safeguard the interests of the investors in ongoing and / or open-ended ICF issuances.

Collective Takaful system / mutual guarantee system

- BC24 The board elaborated on the requirements requested from the issuer, specifically with regard to insurance / guarantee against the performance. The question raised was “should there be a collective Takaful system / mutual guarantee system for risky transactions”?
- BC25 Certain members were of the view that this should be optional and shall be driven by the local regulations rather than being part of the standard. Others were of the opinion that preferably there should be a mechanism to mitigate the risks inherent in the ICF issuances

from the investors' perspective. They considered Takaful or mutual guarantee as important to safeguard the interests of the stakeholders and enhance the stability and sustainability of the system.

- BC26 The board decided in principle that in order to have a sustainable business model, it is preferred to have a mechanism whereby a Takaful pool or a mutual guarantee system is created to fund the deficit especially for high-risk investments. Accordingly, it was agreed that this should be a preferred requirement.

Cost considerations in applying governance and control requirements

- BC27 The matter of increasing the cost of the ICF issuance due to significant governance and control requirements was discussed extensively by the working group and the board. Certain members believed that these additional costs may not be sustainable for the overall operations of the Islamic crowdfunding industry which is in its infancy. On the other hand, the industry has a competitive advantage over traditional forms of financial services by way of being cheaper. However, this advantage will be lost in the case of additional costs.
- BC28 It was decided that some functions are necessary for the sustainability and stability of the system and to enhance the confidence of the stakeholders so these should not be considered costs, but rather as investments. Having said that, there is still some room to reduce and control the associated costs.
- BC29 The board considered multiple options to address such concerns and decided that:
- a. firstly, the proportionately principle shall be applied e.g., an external Shari'ah audit may not be mandatory / necessary for one-time and relatively small ICF issuances and such requirements shall be applicable where the risk factor is high, the size is relatively large and the transaction is ongoing;
 - b. secondly, certain functions shall be provided by the operator to all the ICF issuances e.g., having a Shari'ah compliance function catering to the requirements of all ICF issuances by the operator and having a common SSB being appointed as SSB of multiple ICF issuances; and
 - c. thirdly, certain functions may have the option to be outsourced in order to manage costs.

Establishment of an audit and governance committee (AGC)

- BC30 Considering the small size of the normal ICF issuances, certain members were of the view that it was not necessary to have an AGC for each ICF issuances. Certain members opined that where the issuer and the operator have their own audit committees there is no further need to establish an audit committee for all ICF issuances. Other members were of the view that since ICF issuances involve public money, the minimum governance requirements including the establishment of an AGC shall be applicable.

- BC31 The board, after due deliberation, decided that establishment of an AGC for an ongoing and / or open-ended ICF issuance is important to ensure that the stakeholders' interests are safeguarded, a proper governance and control structure is in place and in operation, as well as, the financial reporting is performed properly. However, in order to address the concerns related to additional costs, it was decided that an AGC of an ICF issuance may also be the same as the audit committee of the issuer, if any, or a specific committee formed with limited scope i.e., the underlying operations only. It was also decided global best practices in order to save costs, the compliance officer or any officer of the operator may also be part of the AGC.

The level of detail in the prospectus

- BC32 The board discussed the level of detail of information and the relevant contents of such information that should be included in the prospectus for an ICF issuance as compared to other instruments such as Sukuk.
- BC33 Certain members were of the opinion that the prospectus for ICF issuances shall not be subject to detailed information requirements such as those required in the case of Sukuk because of the difference in size of transactions and the structures. The members were also of the view that the operator shall use his own judgment with regard to the usefulness of the information that the issuer passes to him and may himself decide the impact of disclosing the less useful information alongside the more useful information and in such a situation decide what information to share with the investors.
- BC34 After due deliberation, it was agreed that the prospectus of an ICF issuance shall comprise of a reasonable extent of information as enumerated in the standard. However, the board decided that the information requirements for an ICF issuance shall be less strict and have more flexibility as compared to other instruments and shall be subject to the principle of proportionality. It was also decided that in the case of open-ended ICF issuances, the prospectus needs to be updated (i.e, shall be a live document), as the information available to the potential investors requires updating from time to time.

Appendix E: Brief history of the preparation of the standard

- H1 The first working group meeting was held on Monday, 17 Muharram 1441 AH, corresponding to 16 September 2019 at the AAOIFI head office, Kingdom of Bahrain. The members discussed the preliminary study and agreed on conceptual issues. The study was approved to be presented to the board.

- H2 AGEB held its 13th meeting on 2-4 Safar 1441H, corresponding to 1-3 October 2019 at the AAOIFI Head office in Bahrain and approved the preliminary study.

- H3 Following the approval of the board, the working group held several meetings to discuss the first version of the exposure draft. The meetings were held on 24 Jumada II 1442H, corresponding to 7 February 2021 and 7 and 8 Sha'ban 1442H, corresponding to 21 and 22 March 2021 via video conferencing.

- H4 The working group approved the exposure draft and recommended to present it to AGEB. AGEB held two meetings and discussed the exposure draft in its 20th and 21st meetings, held via video conferencing, on 15 and 16 Jumada I 1442H, corresponding to 29 and 30 March 2021 via video conferencing and on 5 and 6 Dhul-Qa'dah 1442H, corresponding to 15 and 16 June 2021, respectively. The exposure draft was approved, in principle, for issuance.

- H5 The board directed the secretariat to make the necessary changes and approved the exposure draft via circulation. After due process, the exposure draft was issued on 8 Rabi' I 1443H, corresponding to 14 October 2021.

- H6 [to be updated]