

A new way of raising capital, investing

Equity crowdfunding allows start-ups and SMEs to do business more easily

BY EDWIN
LEE YONG CIEH



Imagine this: You have got a brilliant business idea and you want to roll it out to the market, but you lack the required capital to kick-start the project; or your financial adviser tells you not to “put all your eggs in one basket” as that is a recipe for failure, so you look for other ways to invest your hard-earned money; or you are a successful entrepreneur and you want to develop a platform to help other ambitious entrepreneurs who have dreams but lack funding.

The good news is finally here when the Securities Commission Malaysia (SC) released new guidelines on Feb 10 to facilitate equity crowdfunding (ECF). The guidelines seek to strike a balance between the benefits of crowdfunding and its risk to the public.

The SC describes ECF as “a new form of fundraising platform that allows start-ups or other small and medium enterprises (SMEs) to obtain funding through small equity investments from relatively large number of investors using online portals to publicise and facilitate such offers to investors”. The investors receive shares or stocks in return for their investments, and can expect a return in the form of dividends if the company performs well.

The ECF platform operator

A person who wishes to operate, provide or maintain an electron-

ic ECF platform (operator) must register the platform with the SC. The operator must be a locally incorporated company or a limited liability partnership formed in Malaysia.

In order to register an ECF platform, the operator must exhibit to the SC that it will be able to operate an orderly, fair and transparent market; its board of directors (chief executive officer, chief operating officer, chief financial officer, etc) satisfies the fit and proper test; it will be able to manage any risk associated with its business and operation; it will appoint at least one responsible person in compliance with the guidelines; it will be able to take appropriate action against a person in breach; the rules of the ECF platform comply with the requirements of the guidelines and that it has sufficient financial, human and other resources for the running of the ECF platform at all times.

The SC places great emphasis on the security and integrity of the ECF platform’s IT system as it requires the operator to put in place adequate security measures and hire sufficient and capable IT and technical personnel to maintain the system.

An ECF platform essentially works like a stock or derivatives market that connects entrepreneurs with investors. As such, the SC sees it fit to require the operator to carry out a due diligence exercise on prospective issuers; monitor the conduct of issuers and investment limits of investors,

as well as any money-laundering activities; carry out investor education programmes; and protect personal data of individuals in accordance with the Personal Data Protection Act 2010.

The issuer

A person who wishes to list his project on an ECF platform (issuer) must first incorporate a local private company. In terms of the limit to funds raised on the ECF platform, the guidelines say that an issuer can raise up to RM3 million within a 12-month period irrespective of the number of projects an issuer may seek funding for, and a total of RM5 million through the ECF platform.

Raising money from complete strangers is never easy. The issuer will need to come up with a strategic business plan to effectively market and promote itself and its project. First of all, the issuer must choose the right ECF platform to do its listing as it is not allowed to list on multiple ECF platforms concurrently.

It should also target a specific pool of investors if the project is a niche one. For example, if the project is about healthcare-related products, it should first target people from the healthcare industry as they would be more inclined to invest in products or services that will improve or add value to their field.

Most of the crowdfunding platforms adopt the “all-or-nothing” model. That is, if the issuer fails to raise the targeted investment amount by the deadline, the fund

raised will be returned to the investors and the issuer will get nothing.

That is why it is so important to have a strong, well-executed plan, as projects listed on an ECF platform can go by really quickly, especially when there are dozens of other projects listed on the platform at the same time, all vying for attention.

The issuer should develop an attractive name, a convincing description and an eye-catching image as part of the project to help the project stand out from the pool of projects. The pitching must be creative and concise enough to grab people’s attention. Getting listed on an ECF platform is just the beginning.

The issuer will need to treat fundraising activity very much like how politicians run their political campaigns, and it has to continually drive traffic to its project page through social media, email marketing and other communication tools used to engage with its potential investors.

In this Internet age, great ideas go viral very easily and broadly. Make good use of the Internet to reach out to large audiences. Highlight the potential return on investment from the project. Show the investors how the fund will be utilised. Practise transparency as that is the key to gaining confidence from the investors.

The investor

Anyone can become an investor subject to certain restrictions. If you are a sophisticated investor (i.e. accredited investor, high-net-

worth entity or high-net-worth individual), there is no limit to the investment amount; if you are an angel investor (i.e. an investor accredited by the Malaysian Business Angels Network), you can invest up to RM500,000 within a 12-month period; and if you are a retail investor, you can invest up to RM5,000 per issuer with the total amount not exceeding RM50,000 within a 12-month period.

The guidelines also include investor protection mechanisms whereby the operator is required to ensure that any fund raised in relation to a listing on the ECF platform must be kept and maintained in a trust account until the targeted amount sought to be raised has been met.

Investors are given a six-day cooling off period within which they may withdraw the full amount of their investment. If there is any adverse change relating to the offer during the offer period, the investors must be notified of such a change. They will be given the option to withdraw their investment if they choose to do so.

The release of the guidelines marks a progressive milestone by the government and will certainly help Malaysia to create a thriving entrepreneurial ecosystem.

Edwin Lee Yong Cieh is a senior associate at Christopher & Lee Ong, the Malaysian associate firm of Rajah & Tann Asia Network. This article is for information purposes and does not constitute legal advice.

In Japan, robot dogs are for life — and death

IT is a funeral like any other in Japan. Except that those being honoured are robot dogs, lined up on the altar, each wearing a tag to show where they came from and which family they belonged to.

The devices are “Aibos”, the world’s first home-use entertainment robot equipped with artificial intelligence and capable of developing its own personality.

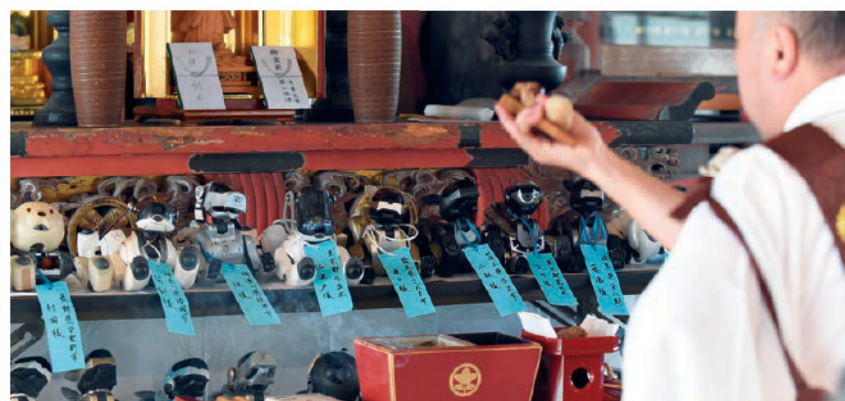
“I believe owners feel they have souls as long as they are with them,” said Nobuyuki Narimatsu, 59, who heads an electronics repair company specialising in fixing vintage products.

Sony rolled out the first-generation Aibo in June 1999, with the initial batch of 3,000 selling out in just 20 minutes, despite the hefty ¥250,000 (RM7,593) price tag.

Over the following years, more than 150,000 units were sold in numerous iterations, ranging from gleaming metallic-silver versions to round-faced cub-like models.

The dogs come with an array of sensors, a camera and a microphone. The final generation could even talk.

By 2006, Sony was in trouble; the



Bungen Oi offering a prayer during the funeral for 19 Sony pet robot Aibos at the Kofukuji temple in Isumi, Chiba prefecture, last month. Photo by AFP

Funabashi says he does not enhance the functions of aged Aibos, but tries to restore them to health.

The problem is that repairs can take weeks or even months because of a shortage of spare parts. Dozens of Aibos are now “hospitalised”, with more than 180 on the waiting list.

The only source of genuine parts are “dead” robots, who become donors for organ transplantation, but only once the proper respects have been paid.

Bungen Oi, a priest at the 450-year-old Kofukuji temple in Isumi, east of Tokyo, says the Aibo service last month was an occasion in which the robots’ souls could pass from their bodies.

Humans will probably become more used to such devices over the coming years, as robots with “personalities” become ever more part of our lives. — AFP

Aibo, an expensive and somewhat frivolous luxury, had to go.

The company kept its “Aibo clinic” open until March 2014, but then told dedicated and loving owners that they were on their own.

For Hideko Mori, 70, that nearly spelled disaster. Mori has had her Aibo for eight years. She enjoys the conversations she has

with it, and thinks it far more convenient than a real puppy.

In May last year her beloved Aibo became immobile. “I emailed a former Sony worker (on behalf of the dog), saying: ‘Do I have no choice but to die like this because I can’t walk?’” she said.

The engineer introduced her to A FUN, a company that employs

former Sony engineers, which fixed her machine in two months.

Hiroshi Funabashi, 61, who supervises repairs at A FUN, said troubled Aibo owners think of him more as a doctor than an engineer.

“For those who keep Aibos, they are nothing like home appliances. It’s obvious they think their [robotic pet] is a family member,” he said.