



By Email

14 November 2023

To: Senior Executive Officers (SEO) of Crowdfunding Platform Operators

Re: Findings from Thematic Review on Financial Promotions made by Crowdfunding Platform Operators

Dear SEO,

The purpose of this letter is to update you on the findings and observations from the recent thematic review (“**Thematic Review**”) of Financial Promotions of Crowdfunding Platform Operators (“**CFP Operators**”). We wish to thank CFP Operators who participated in the Thematic Review for their cooperation.

In line with our regulatory approach, the objective of this Thematic Review is to ensure that Financial Promotions are communicated to clients in a clear, fair, and not misleading manner. By sharing examples of good and poor practices, we aim to drive improvements across the wider population of CFP Operators.

Unless the context requires otherwise, capitalised terms used in this letter have the same meaning as set out in the Glossary Module ([GLO](#)) of the DFSA Rulebook.

Process of Engagement

On 6 April 2023, the DFSA requested information about Financial Promotions policies, procedures, and practices to:

- (1) assess compliance with DFSA Financial Promotions Rules; and
- (2) evaluate the adequacy of the systems and controls CFP Operators have in place to identify, manage, and mitigate risks associated with Financial Promotions.

As part of the Thematic Review, we reviewed c.200 Financial Promotions including websites, social media, emails, print, and other forms of promotions or marketing material. The key findings from the review are set out in the Annex to this letter.

While the findings are specific to participating CFP Operators, these findings also align with the DFSA's expectations for how all Authorised Firms engage in Financial Promotions. Specifically, the DFSA expects all Authorised Firms to continually assess their policies, procedures, systems, and controls, as they pertain to Financial Promotions, and disseminate Financial Promotions in a regulatory compliant manner.

The DFSA has also provided specific feedback, including Risk Mitigation Programmes where necessary, to individual CFP Operators to address shortcomings in their Financial Promotions policies, procedures, systems, and controls and rectify areas of non-compliance with the DFSA Rulebook.

If you have any questions in relation to this letter, please contact us using the DFSA Supervised Firm Contact Form found on the [DFSA ePortal](#).

Yours faithfully,



Justin Baldacchino
Managing Director, Supervision

CC: Compliance Officers



Annex - Key findings

The Thematic Review on Financial Promotions focused on CFP Operators only. Below are the key findings, highlighting the need for improvements to policies, procedures, systems, and controls to demonstrate compliance with the Financial Promotions Rules. The DFSA also expects all CFP Operators to take into consideration these key findings when assessing their Financial Promotions policies, procedures, systems, and controls.

Please keep in mind these are thematic findings and are, therefore, common to multiple, but not all, CFP Operators.

1. Financial Promotions requirements

The CFP Operators included in our assessment demonstrated varying levels of understanding of the Financial Promotions requirements set out in Article 41A of the Regulatory Law, [Chapter 3](#) of the GEN Module and [Rule 3.2](#) of the COB Module (COB) of the DFSA Rulebook. However, while the relevant policies, procedures, systems and controls on Financial Promotions generally incorporated DFSA requirements, it was observed that the employees who were engaged in promoting financial products and services did not always understand and properly implement these policies, procedures, and systems and controls, as required under GEN [Rules 5.3.7](#) and [5.3.19](#).

The DFSA expects all CFP Operators to take appropriate steps and conduct training sessions for their employees to ensure that they understand the Financial Promotions requirements under the DFSA Rules and effectively implement relevant policies and procedures.

2. Marketing material intended for Professional Clients

We identified that the majority of the policies maintained by CFP Operators acknowledge the distinction between Retail and Professional Clients. However, there are no specific procedures in place for Financial Promotions intended for Professional Clients. This is not consistent with the DFSA requirements set out in COB Rules [3.2.4\(1\)\(c\)](#) and [3.2.5\(a\)](#).

The DFSA understands that CFP Operators mainly cater to Retail Clients and the Financial Promotions are generally directed towards Retail Clients. However, if CFP Operators issue Financial Promotions intended for Professional Clients, they should ensure that the DFSA requirements under COB Rules [3.2.4\(1\)\(c\)](#) and [3.2.5\(a\)](#) are met.

3. Approval of Financial Promotions

All CFP Operators evidenced policies related to Financial Promotions, whether as a standalone policy or included within their compliance manual. However, we noticed that many do not have a structured and formal process for the review and approval of Financial Promotions. Furthermore, in some instances, promotions made via social media channels were not recorded or routed through the formal approval process.

The DFSA expects all CFP Operators to implement a comprehensive Financial Promotions approval process to foster regulatory compliance, consistency and transparency and alignment with investor protection obligations. The approval process must ensure that, prior to issuance, all Financial Promotions are assessed and approved against established criteria to determine whether they constitute Financial Promotions and to determine whether they meet all regulatory requirements. CFP Operators are also expected to maintain adequate and complete records of Financial Promotions, including sufficient evidence of review and approval, to demonstrate that the process is implemented consistently.

We expect all CFP Operators to update their policies and procedures to outline explicitly the review and approval process and to clarify the roles and responsibilities of staff responsible for the development, review, and approval of Financial Promotions.

4. Ongoing monitoring of Financial Promotions

It was observed that a number of CFP Operators do not have a process for the ongoing review of Financial Promotions that remain in use, including websites and social media channels, to ensure that they continue to comply with the DFSA Rules. Additionally, we observed instances of promotions on webpages in relation to financial products that were not subsequently launched but continued to be displayed on the CFP Operator's website.

All CFP Operators are expected to implement policies, procedures, systems, and controls to monitor and review Financial Promotions that remain in use to ensure their continued relevance and compliance with the DFSA Rules.

5. Third-Party Service Providers

We observed that several CFP Operators engage with third-party service providers to promote the CFP Operators' products and services. However, we identified circumstances where such CFP Operators did not have policies, procedures, systems, and controls to ensure that Financial Promotions made by third-party service providers on their behalf comply with DFSA Rules and requirements.

All CFP Operators must have a formal process in place to ensure that Financial Promotions made by third-parties, on behalf of the Authorised Firm, comply with applicable DFSA Rules and requirements.

Furthermore, we remind CFP Operators of their obligations under GEN [Rule 3.6](#) if they are approving Financial Promotions on behalf of third-parties.

6. Disclosures and Risk Warnings

Several CFP Operators did not comply with the requirements under COB [Rule 3.2.6](#) in relation to past performance and forecasts. Our review of marketing materials including websites, social media, emails, print, and other forms of promotions, identified a number of instances where past performance and future forecasts:

- (i) did not present a fair and balanced view of the financial products or services. For example, some Financial Promotions presented a projection of gross returns, without accounting for the related costs and/or the net return associated with the investment;
- (ii) did not identify the source of information from which the past performance was derived nor explain the key facts and assumptions on which financial projections were based; and
- (iii) did not contain proper risk warnings associated with the financial product or service being promoted.

A concerning trend was identified where risk warnings were not prominently displayed on websites and social media channels. We identified instances where comparisons were made to the returns of other asset classes (such as cryptocurrencies) without sufficient articulation of the unique product features and risks associated with the financial product or service being promoted.

All CFP Operators must have processes in place to ensure that all Financial Promotions are clear, fair, and not misleading: GEN [Rule 3.5.1](#) and COB [Rule 3.2.1](#). To that end, each promotion must include a clear and prominent articulation of risks inherent to the financial product. The risk warning must identify the source of the information from which any past performance is derived, including the basis of any key facts and assumptions used; present a fair and balanced view of the financial product; and contain a prominent statement that past performance is not necessarily a reliable indicator of future results, in accordance with COB [Rule 3.2.6](#).

7. Disclosure of Regulatory Status

We identified several instances where CFP Operators promoted the financial products and services of other entities within their group through social media accounts that are owned by the DFSA regulated entity. These promotions did not include appropriate regulatory disclosures clarifying whether the financial products or services were being offered by the DFSA regulated entity or by other group entities.

All CFP Operators must ensure that all marketing material contains the name of the Authorised Firm communicating the marketing material or, on whose behalf the marketing

material is being communicated, and its regulatory status in accordance with COB [Rule 3.2.4](#).

8. Islamic Window

We observed instances where CFP Operators with an Islamic Licence endorsement did not have additional policies and approval processes for Financial Promotions related to their Islamic Window, to assess compliance with applicable Shari'a requirements.

All CFP Operators which carry on Islamic Financial Business are expected to develop policies and approval processes for Financial Promotions to ensure compliance with applicable Shari'a requirements. Furthermore, CFP Operators must maintain evidence that marketing material communicated by that Firm has been approved by a Shari'a Supervisory Board, in accordance with [Rule 3.8.2](#) of the Islamic Finance Rules (IFR) of the Rulebook.

9. Other concerns

We observed some instances where Financial Promotions referenced the use of a 'secondary market' to promote a transfer facility. The purpose and function of a secondary market is different from that of a transfer facility in accordance with COB [Rule 11.3.16](#). CFP Operators must not mislead or cause confusion amongst investors by using the term 'secondary market' to refer to a transfer facility in any Financial Promotions.

We also observed a lack of clarity around certain terms used to describe the types of properties that are being listed for sale on the platform (i.e., 'second home'). Furthermore, some promotions were directed at global real estate investment opportunities, which fall outside the scope of the DFSA's Crowdfunding Regime.

Financial Promotions for Property Crowdfunding must make it clear that properties listed on the platform are limited to residential properties that fall within the scope of the DFSA's Crowdfunding Regime.