

NAVIGATING THE EQUITY CROWDFUNDING PROCESS IN MALAYSIA: WHAT ISSUERS SHOULD KNOW

Introduction

Introduced a decade ago in Malaysia, the equity crowdfunding (“**ECF**”) framework has undergone multiple revisions since. It now serves as a viable avenue for micro, small, and medium-sized enterprises (“**MSMEs**”) to raise funding from the public. To illustrate, ECF campaigns have raised RM776.15 million from 404 offerings since 2015.¹ The ECF framework is regulated by the Securities Commission Malaysia under the Guidelines on Recognized Markets (“**RMO Guidelines**”). The RMO Guidelines govern various aspects of ECF, including the application for registration as a recognized market operator for ECF (“**ECF Operator**”),² eligibility criteria for MSMEs seeking funding via ECF (“**Issuer**”),³ fundraising limits,⁴ investment limits,⁵ and other related matters.

Eligibility, Fundraising & Investment Limitations

On eligibility, only locally incorporated companies and limited liability partnerships (“**LLP**”) are permitted to be hosted on an ECF platform operated by an ECF Operator.⁶ It is worth noting that public-listed companies, their subsidiaries and companies with no specific business plans, among others, will not be permitted.⁷

Also, there shall be no concurrent listings on different ECF platforms.⁸ On fundraising limitations, an Issuer may only raise, in aggregate RM20 million through ECF platforms in its lifetime.⁹ As for investment limitations, this differs in accordance with the categories of investors: (i) sophisticated investors (no restrictions); (ii) angel investors (RM500 thousand within a 12-month period); and (iii) retail investors (RM10 thousand per Issuer, total amount not exceeding RM50 thousand within a 12-month period).¹⁰

The ECF Process

An eligible Issuer first engages an ECF Operator, seeking to list its shares on an ECF platform. The ECF Operator conducts due diligence on the Issuer.¹¹ This includes

conducting background checks on both the Issuer and its personnel, in addition to verifying the business proposition of the Issuer. The Issuer shall lodge a disclosure document with the ECF Operator, containing all the necessary information about the fundraising (such as the purpose of the fundraising, financial information of the company, and other related matters), for the investors to make an informed decision about the potential investment.¹² The ECF Operator works alongside the Issuer in finalising the pre-launch and live ECF campaign periods. The ECF Operator also undertakes marketing roles in actively promoting the fundraising, with input and direction from the Issuer where necessary.

A successful ECF campaign means that the minimum fundraising amount has been met by the ECF campaign end-date. Should the ECF campaign be unsuccessful however, all investment sums shall be refunded to the investors. Besides an onboarding fee, the ECF Operator normally charges a percentage (ranges from 3% to 7% as an indicator) of the total amount raised as part of its fees for ECF services provided to the Issuer.

It is important to highlight the following:

(i) In return for investment sums, the Issuer would be offering either ordinary or preference shares. Simply, ordinary shares carry voting rights.¹³ To issue preference shares, this must be provided for in the Constitution of the Issuer.¹⁴ Preference shares typically carry fixed dividends and lack voting rights. It may also be redeemed by the Issuer or be converted into ordinary shares within a specified period.

(ii) Although not a legal requirement, the investment is normally done through an investment vehicle/nominee, like an LLP. It is the LLP, rather than the investors, that will be subscribing to the shares of the Issuer.

(iii) The funds raised from ECF campaigns are kept at a designated trust account of a licensed institution as appointed by the ECF Operator. The trustee only disburses the funds to the Issuer upon the fulfilment of several conditions: that the minimum fundraising amount has been met, shares have been issued to the investors, no material adverse change in relation to the offer prior to the issue of shares, and the cooling-off period of at least six business days has lapsed.¹⁵

(iv) The Malaysia Co-Investment Fund ("**MyCIF**") can be a potential investor to the Issuer's ECF campaign. MyCIF pledges to invest RM1 for every RM4 raised from ECF campaigns conducted via its eleven participating ECF platforms.¹⁶ ECF campaigns related to food security, environmental and social impact enjoy a better investment ratio (RM1 for every RM2 raised).¹⁷

(v) Upon the conclusion of the successful ECF campaign, the Issuer is responsible for ensuring regular communication and updates to the investors, who are now shareholders.¹⁸

Transactional & Non-transactional Documents

The Issuer ordinarily enters into the following agreements in relation to the ECF process:

(i) Issuer Agreement

This is the engagement agreement entered into between the Issuer and the ECF Operator. Notable clauses include the particulars surrounding the ECF campaign and the ECF Operator's fee structure, among others.

(ii) Subscription Agreement

The LLP enters into a Subscription Agreement with the Issuer, whereby subscription money (investment sums) is exchanged for subscription shares in the Issuer. The LLP becomes a shareholder of the Issuer through this Subscription Agreement.

(iii) LLP Agreement

Where the investment vehicle is an LLP, the LLP itself, the partners (investors) and the Issuer (less common, deal-specific) enter into an LLP Agreement. This agreement acts as an operating document for the LLP and governs how the LLP is managed. The partners hold partnership units in the LLP, proportionate to their investment sums.

(iv) Deed of Adherence

Only subsequent investors execute a Deed of Adherence to the LLP Agreement. By signing the Deed of Adherence and upon the Issuer acknowledging it, the LLP Agreement binds the subsequent investors, as if they signed the LLP Agreement as part of the initial investors.

(v) Shareholders' Agreement

Where there is more than one shareholder in a company, a Shareholders' Agreement (or an amendment, if there is already an existing one) would be sensible. The existing shareholders, the LLP and the Issuer enter into a Shareholders' Agreement to regulate among others, the rights of the shareholders, any transfer restrictions regarding the shares and potential drag-along and tag-along clauses (exit mechanisms which are relevant to minority shareholders like the LLP).

Common Pitfalls for Issuers

The common pitfalls can be categorised as follows:

(i) Being Unprepared for the ECF Process

Prior to initiating the ECF process, the Issuer should be doing self-checks on what is required or expected of them. It would be beneficial for the Issuer to engage its own legal counsel to represent its best interests. Inadequate preparation often results in delays, possibly derailing the ECF campaign or causing it to lose momentum. The Issuer should be clear about its business proposition and to avoid complicated organisational structures. The valuation of the business should be reasonable. This is because an

unrealistic valuation could deter exit opportunities in the future and make subsequent fundraising rounds difficult if the business fails to meet its early price tag.¹⁹

(ii) Failing to Engage the Right ECF Operator

The importance of selecting the right ECF Operator cannot be overestimated. There are currently thirteen licensed ECF Operators in Malaysia,²⁰ each with its own unique strengths, whether in terms of size/type of listings, investor base, and track record. Accordingly, the Issuer should select the ECF Operator best suited to its needs. For instance, it would be prudent for the Issuer to consider whether the ECF Operator has a track record of successful listings in relation to the Issuer's industry, a solid investor base, or could provide extensive marketing support to the Issuer's ECF campaign.

(iii) Lack of Investor Appetite & Engagement

The success of the Issuer's ECF campaign depends on the investors onboarded, to a certain extent. The Issuer will be in a stronger position if it already has a reliable and committed investor base. Otherwise, the Issuer should leverage the ECF Operator's investor base or to engage in consistent marketing initiatives to increase visibility and build traction. It is in the interests of the Issuer to keep the investors informed and engaged at all times.

Conclusion

ECF offers MSMEs a credible, regulated and accessible pathway to fundraising from the public. The Issuer must navigate legal and regulatory considerations to achieve a successful outcome.

The success of an ECF campaign is not guaranteed, as it depends on various factors. However, the Issuer could increase its chances by anticipating and addressing the common pitfalls, and by approaching the ECF process in a realistic, measured and strategic manner.

1. Securities Commission Malaysia, Annual Report 2024

<https://www.sc.com.my/api/documentms/download.ashx?id=528bda89-833b-42ef-8535-b2a751435ae1> (pg. 243) accessed 12 August 2025.

2. Securities Commission Malaysia, Guidelines on Recognized Markets (6 January 2025)

<https://www.sc.com.my/api/documentms/download.ashx?id=8dee8828-6793-42a8-95d9-074791d7a69c> (paras 2.04 to 2.05) [cited in this article as 'RMO Guidelines'] accessed 12 August 2025.

3. *ibid.* paras 13.14 to 13.18.

4. *ibid.* paras 13.19 to 13.20.

5. *ibid.* paras 13.31 to 13.32.

6. *ibid.* para 13.14.

7. *ibid.* para 13.15.

8. *ibid.* para 13.16.

9. *ibid.* para 13.19.

10. *ibid.* para 13.31.

11. *ibid.* para 13.05.
12. *ibid.* para 13.24.
13. Companies Act 2016, s 71(1).
14. *ibid.* s 72(1), s 90(4).
15. RMO Guidelines n 2 above, para 13.08.
16. Securities Commission Malaysia, 'Malaysia Co-Investment Fund' <https://www.sc.com.my/mycif> accessed 12 August 2025.
17. *ibid.*
18. RMO Guidelines n 2 above, para 13.28.
19. Kuek Ser Kwang Zhe, 'Comment: The problem with high ECF valuations' (The Edge Malaysia, 3 July 2023) <<https://theedgemaalaysia.com/node/672726>> accessed 12 August 2025.
20. Securities Commission Malaysia, 'Digital Initiatives' <https://www.sc.com.my/development/digital/digital-initiatives#id-fintech> accessed 12 August 2025.

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