

Communiqué on Equity Based Crowdfunding

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General principles and procedures of the crowdfunding mechanism were laid out with the amendment dated 5 December 2017 to the Capital Markets Law numbered 6362 and dated 30 December 2012 (“**Capital Markets Law**”). To elaborate the main structure set forth under the Capital Markets Law, the Capital Market Board (“**Board**”) published the Communiqué III-35/A.1 on Equity Based Crowdfunding (“**Communiqué**”) in the Official Gazette No. 30907 dated 3 October 2019. This alert summarizes important provisions of the long-awaited Communiqué.

1. Crowdfunding Platforms Are Required to Be Listed by The Board in Order to Engage in Activities Under the Communiqué.

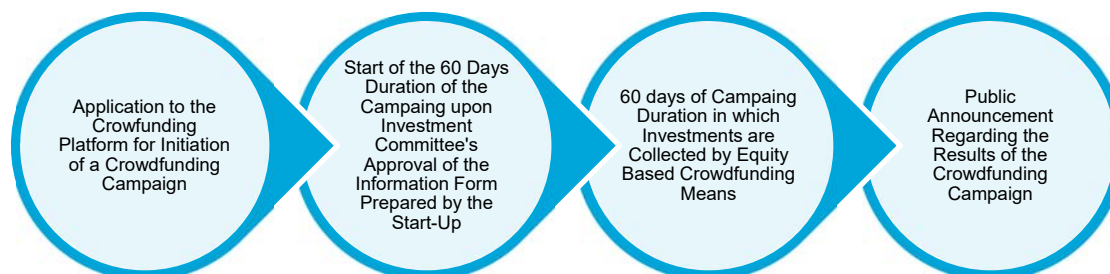
To be listed by the Board, crowdfunding platforms shall fulfill requirements set forth under the Communiqué, the most important of which can be summarized as follows:

- Platforms shall have a share capital of at least TRY 1,000,000 all paid-up, be established as a joint stock company and the type of shares of the crowdfunding platforms shall be registered shares;
- Trade name of the crowdfunding platform shall include the inscription “Crowdfunding Platform”. Furthermore, the articles of association of the platform shall state that the platform exclusively engages in crowdfunding activities;
- Shareholders and members of the board of directors shall meet the requirements provided under the Communiqué; and
- Crowdfunding platform shall establish an investment committee in accordance with the Communiqué.

In addition to the abovementioned provisions, the Communiqué also regulates activities of the crowdfunding platforms established abroad. Within this context; crowdfunding transactions that the residents in Turkey participate through platforms established abroad, accounts opened abroad for this purpose, cash and other assets sent to such accounts shall be outside the scope of this Communiqué provided that related advertising and marketing activities are not made for residents in Turkey. However, in case of any of the conditions such as (i) opening a workplace by resident platforms in Turkey, (ii) creating a website in Turkish, (iii) promotion and marketing activities regarding the crowdfunding activities made directly and/or through persons or institutions established in Turkey; such activities shall be considered for residents in Turkey. Accordingly, provisions of this Communiqué shall apply.

2. Campaign Processes to Collect Funds Through Crowdfunding.

There are four main steps in the course of the crowdfunding process, as set out below:



Following the execution of a written agreement between the crowdfunding platform and the start-up who seeks funding, the start-up applies to the crowdfunding platform to initiate its crowdfunding campaign with the information form prepared by the start-up where the start-up's project is explained in detail. As a second step, the investment committee of the crowdfunding platform evaluates the start-up's project, ultimately rejecting or approving it. If the start-up's information form is approved and published, the campaign kicks-off. The campaign process cannot exceed 60 days. During the duration of the campaign process, the investors' contributions will be gathered at a secured bank account by an escrow officer (Takasbank or any other escrow agent identified under the Communiqué III-56.1 on Principles Regarding Portfolio Safekeeping Services and Institutions Performing Such Services published in the Official Gazette 28695 and dated 2 July 2013), who will also (i) transfer the funds to the start-up, if the campaign manages to gather the target amount, or (ii) return the funds to the investors, if the process fails.

In case the funds are transferred to the start-up's account, the start-up is required to make a capital increase in the amount of the fund collected during the campaign process within 30 days, provided that such start-up is already an incorporated legal entity. Upon such capital increase, investors will become shareholders of the start-up *pro rata* their investments, as they will be granted issued shares representing the capital of the start-up. If the entrepreneur has not yet incorporated a legal entity designated for its project, the entrepreneur will have to incorporate a company within 90 days as of the completion of the campaign and then utilize the funds to conduct a capital increase within 30 days as of the incorporation date.

Importantly, the Communiqué clearly underlines that only start-ups conducting activities related to technology and/or manufacturing can apply to the crowdfunding platforms to request for funds from potential investors in return of offering its shares.

3. Membership to the Crowdfunding Platform and Campaign Principles for the Investors.

Investors willing to partake in the fund collection process through crowdfunding shall become members of crowdfunding platforms. Within the scope of the membership, crowdfunding platforms and investors shall execute a membership agreement.

The Communiqué also determines certain limits for the investors during the campaign process. In this regard, the annual maximum investment amount by non-qualified investors are determined as TRY 20,000, or 10% of the investors' annual net income, in any case capped with TRY 100,000. On the other hand, the Board does not determine an investment limit for qualified investors, defined under the legislation issued by the Board applicable to venture capital investment partnerships. Supervision of the investment limits are to be monitored by the Central Registry Agency.

4. Prohibited Activities.

The Communiqué further regulates prohibited activities for crowdfunding platforms:

- Crowdfunding platforms cannot act as intermediaries for loan or lending by interest or pledge of any kind under any name or interest, and cannot engage in crowdfunding activities for any capital market instrument other than equity crowdfunding.
- Crowdfunding platforms cannot carry out crowdfunding activities for the purchase and sale of real estate based rights and the development of real estate projects and participation in start-ups.
- Crowdfunding platforms cannot conduct crowdfunding activities aimed at collecting funds for natural and real persons settled abroad in order to raise funds from persons residing in Turkey.
- Crowdfunding platforms cannot make evaluations, analyzes and comments to investors in relation to start-ups or projects as investment advice.
- Crowdfunding platforms cannot act as intermediaries in secondary market transactions regarding shares except for wide authorized brokerage houses. It is not in contradiction to this provision to allow the members to communicate among themselves through the web sites of the platforms.

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