



Discussion Paper – European Union Crowdfunding

Key Facts

SBA 6 Sub-dimension:

6.1.6

Country:

EU Countries

Results & Impact:

- Worldwide crowdfunding volumes: €50 billion (2010 - 2017)
- US Crowdfunding volumes €25.8 billion
- EU €16.9 billion
- EU # of Platforms: 1,231 (over 25% in the UK) January 2018
- US # of Platforms: 900 (January 2018)

A. Policy Level

Crowdfunding is considered the main source of alternative financing; it can offer other benefits to MSMEs: 1. Give proof of concept and idea validation to the product/service 2. Help attract other sources of funding (VCs and business angels) 3. Give access to a large number of different audience 4. Marketing campaign.

Crowdfunding, as all other type of investments, is associated with a number of **risks** such as: 1. project and liquidity risk 2. Platform failure 3. Cyber-attacks. In addition to other **concerns**: 1. Investor's inexperience 2. Reliability of the investment 3. Lack of regulation or different regulatory regimes. However, the appropriate safeguard and regimes concerning investor's protection could manage and eventually eliminate these risks and concerns.

BACKGROUND

Crowdfunding is an important source of non-bank financing (alternative finance) that encourages innovations, jobs creation and economic growth and competitiveness. There are different models for the Crowdfunding Platforms, however this case study will mainly focus on: **1. Investment-Based Crowdfunding**: companies issue equity or debt instruments to crowd-investors through the platform **2. Lending-Based Crowdfunding (also known as Crowdfunding, Peer-to-Peer "P2P" or Marketplace lending)**: companies or individuals seek to raise funds from the public through platforms in the form of loan agreements.

B. Programme Level

EU Member States have adopted a range of measures to promote the growth of crowdfunding and protect investors, either implementing the EU legislative framework where appropriate or via creating national systems. Domestic rules are relatively consistent in their broad approach in terms of: Enabling the environment for the development of crowdfunding platforms 2. Manage risks associated with this alternative financing tool.



These objectives could be achieved by introducing the following key elements of best practices in any crowdfunding regulatory system: 1. Regulatory registration with the national licensing authority 2. Capital and liquidity requirements 3. KYC rules and AML checks required 4. Maximum investable amount 5. Consumer protection measures (including type of investor disclosure) 6. Risk warnings 7. Due diligence/pre-funding checks.

C. Action Level

A study conducted by EBRD: [Regulating Investment and Lending-Based Crowdfunding: Best Practices](https://www.ebrd.com/news/publications/guides/best-practices-for-regulating-investment-and-lendingbased-crowdfunding.html) provided directions and guidance on measures and guidelines that regulators can take to promote crowdfunding while safeguarding privacy concerns. These guidelines were based on mapping analysis conducted in six countries Austria, Dubai, France, Germany, the UK and the U.S. (<https://www.ebrd.com/news/publications/guides/best-practices-for-regulating-investment-and-lendingbased-crowdfunding.html>). The recommendations of the EBRD study were in line with the above-mentioned key elements.

Innovative and Revolutionary Step Change

- European Parliament resolution of July 9, 2016 on Building a Capital Markets Union (CMU) states: CMU should create an appropriate regulatory environment that enhances cross-border access to information on the companies looking for credit, quasi-equity and equity structures, in order to promote growth of non-bank financing models, including crowdfunding and P2P lending.
- 8 March 2018, the EC, in connection with its 2018 Work Programme, issued a FinTech Action Plan and a draft Regulation on Crowdfunding (the “New EU Crowdfunding Regulation”) to harmonise applicable rules and allow platforms to offer services both in their home jurisdictions and across the EU. *This has not been enacted yet.*

D. Key Success Factors

- EC aims at introducing an *optional* EU system that enables crowdfunding platforms to easily provide their services across the EU Single Market, instead of having to comply with different regulatory rules.
- Minimum universal requirements (investors & customers protections) of proper legal framework regime to manage crowdfunding activities and appropriate safeguards for Investor’s protection.
- Regulations should be drafted in a method to enable crowdfunding to complement traditional forms of financing.