

Crowdfunding is a vital source of financing for European high-tech and digital businesses

The European Crowdfunding Network (ECN) supports the development of the Prospectus Regulation as a harmonised, fit-for-purpose tool to enhance cross-border investments in Europe. In particular, the ECN believes that a well-tailored Prospectus Regulation has the potential to support the continuing growth of the European crowdfunding sector. In this paper, the ECN would like to set out its view on how the Prospectus Regulation can achieve this objective.

Crowdfunding is a source of financing supporting European companies throughout their funding cycle. It enables anyone to invest in small and medium-sized enterprises (SMEs) via their mobile, tablet and PC irrespective of geographic location.

Crowdfunding represents a diverse range of risks and assets for investment including personal loans (also known as P2P lending), lending to small and medium businesses (also known as marketplace lending), equity raising for established as well as start-up businesses, and long term project finance. Customers can diversify their investments across a number of projects and platforms facilitated by the low minimum investment requirements (as low as €5) and fully digitised account set up, KYC and appropriateness procedures.

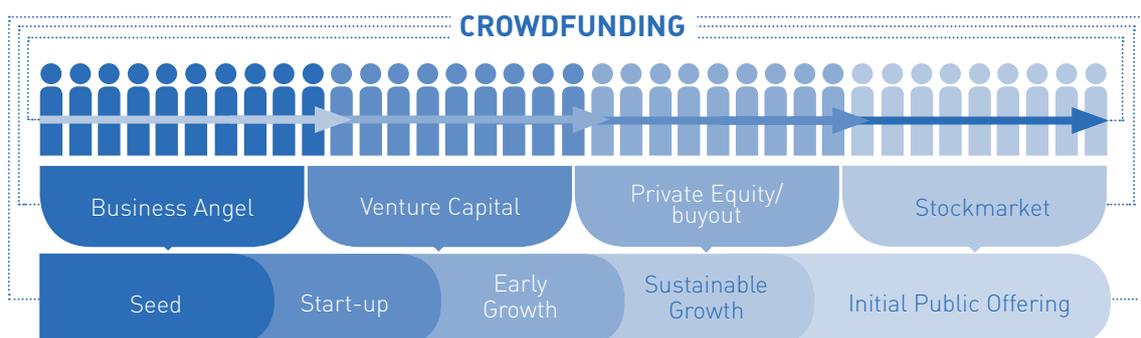
It is a transparent and cost-effective way of bringing together investors from across Europe to fund promising start-up companies while making full use of the opportunities digital technologies provide. Crowdfunding could not be more in line with the EU's flagship initiatives of the Capital Markets Union (CMU) and the Digital Single Market (DSM).

Often associated with funding local micro-businesses, crowdfunding has dramatically evolved in the last 3 years, increasingly moving higher up the 'funding escalator' for companies. Nowadays it is not uncommon to see crowdfunding as a source of funding through equity and/or debt in parallel to Venture Capital (VC) and Private Equity (PE) investors, all the way up to the pre- Initial Public Offering (IPO) stage. Therefore, it is an alternative source of financing the EU Commission is keen to develop as part of the CMU.

Crowdfunding is a growing industry, no longer limited to funding micro-businesses

In 2014 and 2015, SMEs throughout the EU managed to raise through equity crowdfunding alone (not including bond/debt securities) a total of **€439** million. In 2015, SMEs in the UK managed to raise close to **€535** million through equity and debt crowdfunding.¹ The average successful fundraise size is growing fast from **€181,058** in 2013 to **€618,971** in 2015 and on current growth rates forecasted to reach **€1,244,245** by 2020², confirming crowdfunding is rapidly climbing the funding escalator for start-up companies, including high growth tech companies.

Crowdfunding can also play a role in creating transparency in the sizeable market for European retail investors and help to formalise a significant area of the grey capital market. A 2015 study by the Association for Financial Markets in Europe and the



¹ 2015 UK Alternative Financing Industry Report, by Nesta and University of Cambridge Judge Business School

² The European Crowdfunding industry response to the Proposal for a Prospectus Regulation

³ AFME & BCG, Bridging the growth gap: investor views on European and US capital markets and how they drive investment and economic growth, February 2015

Boston Consulting Group showed that investment from retail investors (Family and Friends) into SMEs represented €84 billion out of €112 billion of new investments in 2013, an amount multiple times higher than Private Equity (€9 billion), Venture Capital (€5 billion) and Business Angels (€6 billion) combined.³

Crowdfunding is typically a business model which enables easy and cost-effective investments by private investors into young companies. Therefore, by facilitating investments by family and friends, it will make this large pool of private capital more transparent.

Crowdfunding: a success story for tech and digital companies

Crowdfunding has had a particularly big impact on funding of high-tech and digital companies, ventures often too risky for traditional financiers of SMEs.

MINDTHEBYTE raised €235,000 through crowdfunding in Spain. The bioinformatics company specializes in computational drug discovery using a pay-per-use SaaS platform. The company has also received funding from the European Commission for DataNimbus and has offices in Barcelona and Copenhagen, making it a truly European company.

HEEROS SYSTEMS raised €660,000 through crowdfunding in Finland in 2015. The fintech and consultancy firm, founded in 2000, has been on the Deloitte Finland Technology Fast 50 list seven years in a row, reaching around €4 million in revenue with staff of just over 50 people in 2015. The funding raised through crowdfunding helped to further grow the business and prepare its IPO (initial public offering) on NASDAQ OMX in October 2016.

Why is the Prospectus Regulation important for crowdfunding?

Companies raising funds through crowdfunding platforms will often issue securities, such as shares or bonds to investors which may amount to offering securities to the public, putting these activities potentially within the scope of the Prospectus Regulation.

The Prospectus Regulation aims both at making it easier for companies of all sizes to raise capital

as well as increasing cross-border funding between Member States. Crowdfunding plays an increasingly vital role in funding high growth companies. Therefore, it is essential for the new Prospectus Regulation to be properly adapted to accommodate a sustainable and responsible development of this sector, and to support its cross-border potential.

However, the current positions of the co-legislators at the start of the trilogue negotiations contain several provisions that may significantly hamper the future growth of crowdfunding.

To ensure crowdfunding continues and expands its role in funding new companies, the following provisions should be included in the Prospectus Regulation:

1. The reference to domestic offer in the exemption from the obligation to publish a prospectus (Article 3(2)) should be deleted as it runs counter to the cross-border objective of the CMU.
2. The definition of 'Offer of securities to the public' (Article 2(1)(d)) should clarify that an issuer offering securities through a crowdfunding platform in its home Member State is not deemed to be offering securities in another Member State by sole virtue of the fact that an investor in that Member State, at his or her own initiative, has decided to purchase these securities on the crowdfunding platform.
3. The exemption threshold of Article 3(2) should be set at EUR 10 million, as proposed by the Council.
4. The threshold for micro offerings of securities (Article 1(3)(d)) should remain at EUR 1 million, as proposed by the European Parliament.

Who are ECN ?

The European Crowdfunding Network is a professional network promoting adequate transparency, (self) regulation and governance while offering a combined voice in policy discussion and public opinion building. The ECN supports its members in carrying initiatives aimed at innovating, representing, promoting and protecting the European crowdfunding industry. The ECN was established as an international non-profit association in 2013.