



Ευρωπαϊκό Κοινοβούλιο

The Crowdfunding Platforms Regulation of the EU View from the European Parliament

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Crowdfunding: An economic necessity for the EU's competitive advantage

Weaker banking – limited availability of capital for risky financing / CRD IV regulatory constraints, incomplete Banking Union, high exposure to NPIs

Very weak Private Equity and VC funding

Weak risk sharing tools between the different financial markets - leading to huge amounts of idle capital despite the low interest rates

Need to channel funding to exponential technologies and digital infrastructures to reassure the compatibility of EU's economy with the realities of Industry 4.0

Need to channel capital do technologically disruptive investments for SMEs and Start-ups from 2,3% to 5%

Crowdfunding in the context of the Capital Markets Union

- The first file of the Fintech policy – disintermediation trends
- A regulation on the Crowdfunding platforms and not of instruments
- Two types of platforms: Lending-based platforms and “private equity”-type platforms – securities-based regulation (no products involved)
- Mobilization of idle capital to risky investments in an era of strict bank regulation
- Improve access to capital pools for Member-State that lack the “crowd”

Subject 1: threshold from 1 to 8 mil. Euros

- Average capital raising is 500.000 €
- EC's initial proposal: threshold of 1.000.000 €
- EP's Proposal: threshold of 8.000.000 €

Rational:

Crowdfunding should serve as instrument beyond the seed-level

Scale-up funding should be possible

Strong educational character: Equity funding, less reliant to banks

Subject 2: Blending

Crowdfunding should enter the market as a legitimate source of capital

- **Potential use of the crowdfunding accumulated capital together with other sources of “conventional” financing for start-ups and SMEs as well as other EU funding sources (EFSI, InvestEU, etc)**
- **Similar use of crowdfunding for financing alternative investments like infrastructure**

Subject 3: Financial information and Key-investment-information-sheet

- Crowdfunding should not become a source of market failure due to information asymmetries
- Provision of Financial information essential for comparability and uncertainty reduction – information to be provided in English.
- Key-Information-sheet: info on the project, risk indication, advice to invest up to 10% of wealth, investment subject to 100% loss.
- Avoidance of the provision of sensitive financial information and instead provision of critical financial ratios: efficiency ratios, liquidity ratios, profitability ratios.
- Crowdfunding should be used only for growth and not for covering operational expenses or to roll-over outstanding liabilities

Subject 4: Investor protection

- Crowdfunding Platforms are required to disclose their default rates and the failed investments
- Platforms should to provide disclosure of the financial risks to the potential investors and every piece of information should be provided in a non discriminatory manner and ex ante
- Platforms should provide entry-knowledge test for the investors to check their comprehension of the risks, their investment experience.
- Simulation testing the investor's capacity to bear loss (based on the 10% net worth)
- In case of limited understanding investors are discouraged from participating but they remain responsible of their decision.

Subject 5: Marketing, conflicts of interest and “skin in the game”

- Marketing activities of platforms should be identified by the member states
- Platform owners and employees are allowed to participate as investors to the projects they host in order to signal their alignment of interest between the platform and the investors (skin in the game)
- To avoid conflicts of interest no more than 20% of shareholding interest should be allowed – any participation should be disclosed in the platform
- Internal regulations should prevent conflicts of interest between projects and employees.

Subject 6: Bulletin board

- The platforms can allow the interaction between their investors and the transactions between them of transferable securities
- Platforms shall disclose that they are not operating a trading system
- Platforms can provide an indicative pricing with a clear identification of the valuation method (this valuation should be fair and not risk the prospect of the participating firm)
- For lending-based crowdfunding, platforms should provide information on the servicing of the loans.

Subject 7: Third countries

- The initial proposal of the European Commission had no reference to third-country crowdfunding service providers
- The British rapporteur opened the discussion – he suggested a framework that will allow the operation of third-country platforms in the EU subject to the regulatory standards and requirements of ESMA
- The idea was abandoned: Reasoning: “The crowdfunding regulation will not become a BREXIT report” (!)

Subject 8: Harmonization vs. Coordination

The initial proposal of the European Commission built the regulation on the approach of the, so called, “29th Regime”

According to this regime ESMA is responsible for the regulatory standards, passporting, authorization, registration, supervision, and withdrawal of authorization of the platforms (harmonization)

Parliament reduced the role of ESMA, declined to support the “29th regime” and gave this role to the National Competent Authorities (NCAs)

ESMA will be responsible for drafting technical recommendations that will ensure the level playing field in the EU in a framework of “extended coordination”.

Subject 9: The ICOs

Why ICOs were not included in the original proposal of the EC:

- 1) The regulation was about the platforms and not instruments**
- 2) The regulation was about securities**
- 3) The regulation was far below the average capital raising of a typical European ICO (around 10m €)**
- 4) The regulation was meant to boost cross-border crowdfunding services whereas ICOs are by definition border-frictionless.**

European Parliament attempted to propose the inclusion of ICOs beyond the “securities” definition.

Finally, there is a recital asking for immediate regulatory framework on ICOs and a provision that the crowdfunding Regulation will be amended to include ICOs

The ICOs today: ESMA and EBA Reports

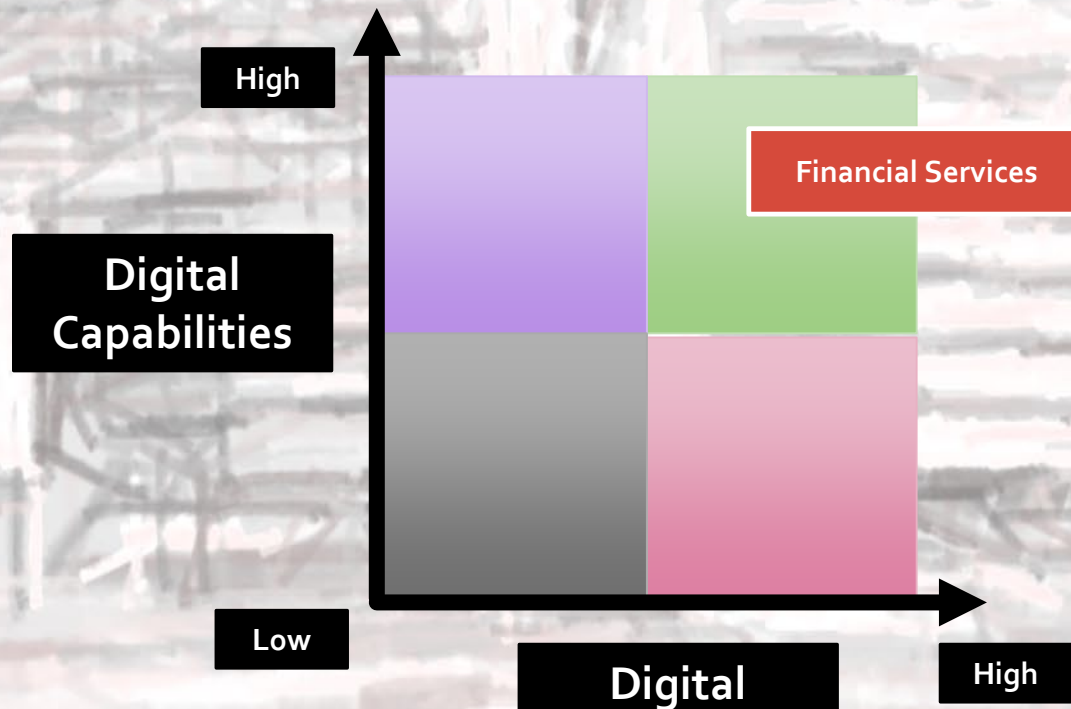
Comments:

- 1)** The reports do not mirror the view of the European Parliament (Blockchain Resolution - 2018)
- 2)** European Commission asked for a cost-benefit analysis - the two authorities see no benefits to this tech at all.
- 3)** Very defensive view - skewed representation of the risks
- 4)** Texts characterized by poor economics - rich "political correctness"
- 5)** No mentioning whatsoever to the benefits of the innovation in financing of start-ups and the facilitation of payments - just a monolythic obsession to money laundering
- 6)** No mentioning whatsoever to the benefits the technology brings for financial inclusion for the disadvantaged citizens
- 7)** No mentioning whatsoever to regulatory sandboxes
- 8)** No mentioning whatsoever about rules enforcement

Disruption in Financial Services

Crowdfunding platforms & instruments: it is not about building digital capabilities, it is about building financial digital leadership!

Strategy: Move your financial services to the upper-right quadrant



Next steps...

Planned to complete the file during the Austrian Presidency

Hopes to start trilogues on the 6th of March – Rumanian Presidency

Expectations to complete the file during the Finish Presidency.

Thank you

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