

# From regulatory harmonisation to sustainable finance

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- 12 August 2020
- Interconnectedness of crowdfunding, sustainable finance and impact investment
- Budapest

# European Crowdfunding Network AISBL



## The professional industry network since 2013

- Promoting transparency, (self-) regulation and governance of the crowdfunding and alternative finance industry
- Fostering policy discussion and public opinion building
- Aiming to increase the understanding of crowdfunding and alternative finance as key support for entrepreneurship

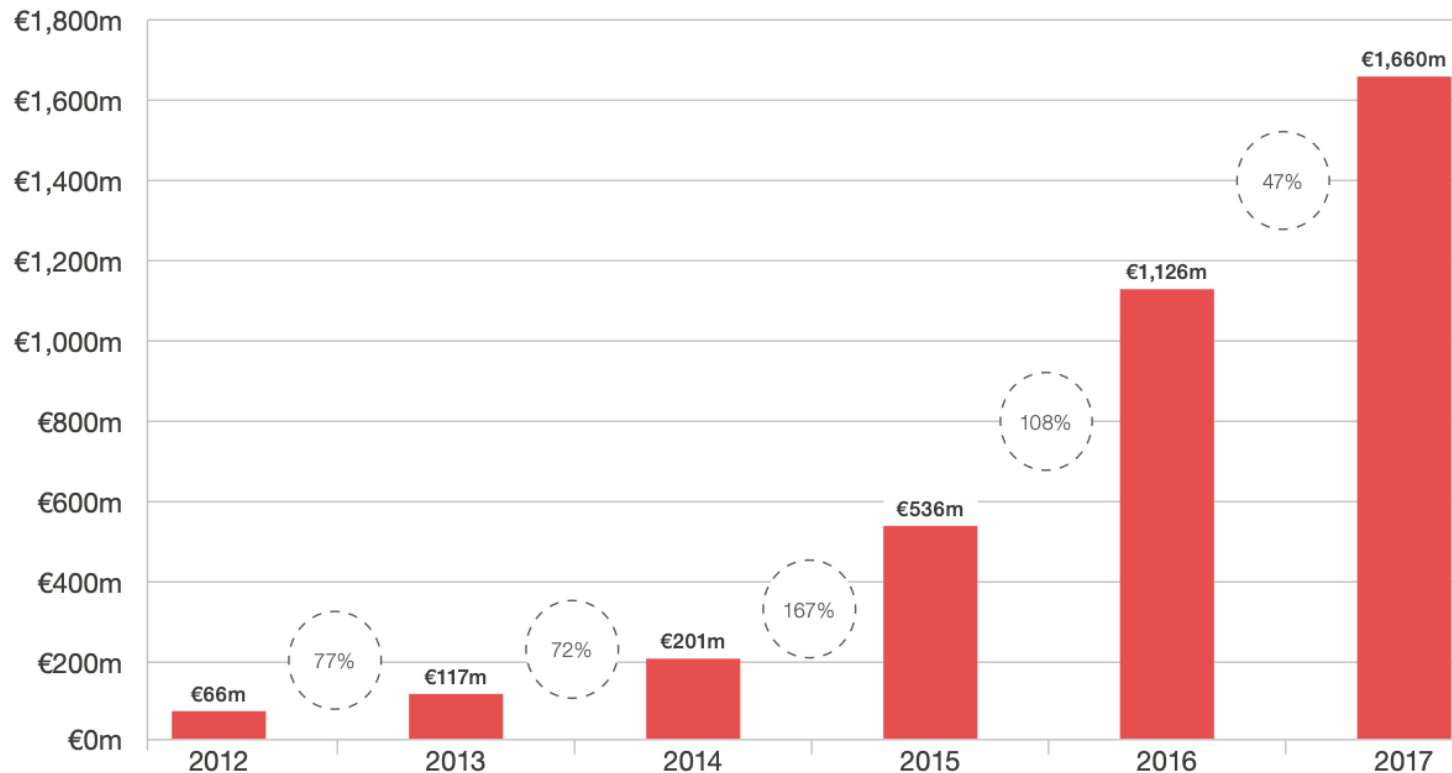
## Our coverage

- 80 Members (crowdfunding platforms and other stakeholders: regional and local authorities, law firms, payment providers...)
- sector specific working groups
- 16 EU countries represented
- More than 20 FP7, H2020 and other projects
- 8 Team members

# Crowdfunding and Regulation

Crowdfunding is an emerging alternative form of financing that connects those who can give, lend or invest money directly with those who need financing for a specific project. It usually refers to public online calls to contribute finance to specific projects.

# Relevance of Crowdfunding



Source: 4<sup>th</sup> European alternative finance benchmarking industry report *Shifting Paradigms*, Cambridge Centre for Alternative Finance, November 2019

- Crowdfunding market in EU is **steadily growing**
- **Lending and Equity** are the leading models
- Reward-based crowdfunding also increasing
- Average success rate per CF model:
  - Donation-Based: 69%
  - Reward-based: 66%
  - Lending: 83%
  - Equity: 81%

# The path to European Crowdfunding Regulation



## 2008 crisis shows existing market failure:

Incumbant financial services (professional and semi-professional) fail to answer funding demand from SME and individuals. Individuals are excluded from direct investment.

1. First crowdfunding platforms appear around 2006 with both, financial products and reward structures. USA providing lead examples. Uptake in EU slower, overall market remains marginal in the early years. **2008 Financial crisis becomes a market motivating factor.**

2. After slow growth, relevance of market is being realised by policy makers around 2012. Italy first EU country to introduce crowdfunding specific regulation. UK, France, Germany and others follow (11 to-date). **EC engages with crowdfunding sector as of 2012, launches stakeholder group in 2013.**

3. Experience with regulation across a number of EU Memberstates, EC follows developments closely and engages in fact finding. EC includes crowdfunding in the revised Prospectus Law in 2017. **Crowdfunding is included in EC FinTech Actions Plan.**

**2018:** Commission proposal for a regulation on European Crowdfunding Service Providers (ECSP) for Business  
COM(2018)113.

# Barriers of crowdfunding

MARKET BARRIERS	DIGITALISATION	TRANSACTION COSTS
	Lack of trust	Information
	Data privacy	Measurement
	Electronic identity	Market making
	User readiness	
REGULATORY BARRIERS	COMPLEXITY	UNCERTAINTY
	Fragmentation	National CF regulation
	Divergence	EU legislation
	Applicability	National applicable laws
	Practicality	



(EC 2017, Identifying market and regulatory obstacles to cross-border development of crowdfunding in the EU.

# ECSP - European Crowdfunding Services Provider Regulation

The European Crowdfunding Network (ECN) welcomes and strongly supports the unified European wide regulatory framework for Crowdfunding Services Providers for Businesses. The proposed text would surely be welcome by many start-ups and SMEs, investors and platforms as a way to boost capital formation and investment opportunity across Europe. For more information please see [www.eurocrowd.org](http://www.eurocrowd.org)

# ECSP - European Crowdfunding Services Provider Regulation



## Definition:

- ‘crowdfunding service’ means the **matching of business funding interest of investors and project owners** through the use of a crowdfunding platform and which consist of any of the following:
  - (i) the facilitation of granting of **loans**;
  - (ii) the placing without firm commitment (...) of **transferable securities and admitted instruments** for crowdfunding purposes (sic!) issued by project owners or a special purpose vehicle (...)



# ECSP - European Crowdfunding Services Provider Regulation



Wont apply to:

- crowdfunding services that are provided to project owners that are **consumers**
- **other services** related to those defined (...) that are provided **in accordance with national law**
- **crowdfunding offers** with a consideration of **more than EUR5 million**, which shall be calculated over a period of 12 months

# ECSP – European Crowdfunding Services Provider Regulation



## What ECSP covers:

- Organisational and operational requirements
- Authorisation and supervision
- Investor protection
- Marketing communications
- Competent authorities and ESMA
- Penalties and other administrative measures

# What ECSP covers



## OPERATIONAL REQUIREMENTS OF CROWDFUNDING SERVICE PROVIDERS:

- Effective and prudent management
- Due diligence requirements
- Individual portfolio management of loans
- Complaints handling
- Conflicts of interest
- Client asset safekeeping and providing payment services
- Prudential requirements

# What ECSP covers



## PROVISIONS TO ENSURE INVESTOR PROTECTION:

- Information to clients
- Default rate disclosure
- Entry knowledge test and simulation of the ability to bear loss
- Pre-contractual reflection period
- Key investment information sheet (individual and platform level)
- Bulletin board

# ...our expectations



... fragmentation will be replaced by minimal harmonised rules. We may see:

- **Market growth and increased competition** leading to **market driven pricing** for SME
- **Professionalisation** of crowdfunding leading to **trust** in the market
- **Market consolidation** with a number of large players with generic focus and smaller expert players in vertical or geographical niches.
- **Higher liquidity** for SME in so far underserved EU Member States
- **Investment opportunities** in SME for EU citizens across the EU

# Crowdfunding and Sustainable Finance under the EU Green Deal

The 5th ECN CrowdCamp: Sustainable Finance was held on 10-12 June 2020, from 13.00 to 16.00 and live-streamed on the internet. You can still watch all three days. Please visit [www.eurocrowd.org](http://www.eurocrowd.org) for relevant links.

# The EU Green Deal



EC Priority 2019-2020: Striving to be the first climate-neutral continent

Climate change and environmental degradation are an **existential threat to Europe and the world**. To overcome these challenges, Europe needs a new growth strategy that will transform the Union into a modern, resource-efficient and competitive economy, where

- there are **no net emissions of greenhouse gases by 2050**
- **economic growth is decoupled from resource use**
- **no person and no place is left behind**

The European Green Deal is our plan to **make the EU's economy sustainable**. We can do this by turning climate and environmental challenges into opportunities, and making the transition just and inclusive for all.

# Crowdfunding and Sustainable Finance under the EU Green Deal



European Sustainable Finance Action Plan put in place in March 2018

- Sustainable finance generally refers to the process of taking due account of **environmental, social and governance (ESG) considerations** when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects. **Environmental considerations** may refer to climate change mitigation and adaptation, preservation of biodiversity, pollution prevention and circular economy. **Social considerations** may refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities and human rights issues. The **governance** of public and private institutions, including management structures, employee relations and executive remuneration, ensuring the inclusion of social and environmental considerations in the decision-making process.



# Crowdfunding and Sustainable Finance under the EU Green Deal



... leads to the Taxonomy Regulation, agreed at political level in December 2019.

- **EU-wide taxonomy** of environmentally sustainable activities and new disclosure requirements for certain financial services firms, including portfolio managers and AIFMs, offering financial products as environmentally sustainable investments (or as investments having similar characteristics).
- The Taxonomy Regulation will **oblige managers** in scope to **make statements** about how their financial products and activities are aligned with the taxonomy it specifies. **It is not applicable to crowdfunding.**
- European Investment Bank and European Investment Fund will adopt the Taxonomy for all investments. **Drip down effects to crowdfunding likely.**

# Crowdfunding and Sustainable Finance under the EU Green Deal



... is an integral part in the European Green Deal, the EU 2019-2024 political objective to become the first climate-neutral continent, in ensuring public private co-investment.

- European Investment Fund (EIF) is now open **to invest working capital** loans into sustainable finance and impact focused **crowdfunding** platforms of up to EUR5 million under the ECs EaSI Financial Instruments. To date, OnePlanet Crowd (NL) and Lita.co (FR) have received relevant EIF support.
- European Investment Bank (EIB) is in general **open to consider fund investments** to support crowdfunding in general. Individual asset allocation to relevant lending platforms or associated AIFM regulated fund entities have been made already.

# ... our expectations



... focus on environmental and social innovation will increase. We may see:

- Increased focus on ESG by crowdfunding platforms can be witnessed, though a **standardised approach is yet to be developed**.
- Open data will move into the foreground and platforms will work more to create **transparency** on their performance.
- **Professional standards** will be tightened in line with ECSP on a European level, with additional **industry-led best practices**.
- Scale, transparency and market standards will lead to **adjustments of pricing (cost of capital)** in crowdfunding and create more market growth and a better fit with capital needs of SME in general and ESG specifically.

Thank  
you

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