ECN's response to the European Commission's consultation on the Capital Markets Union (CMU)

The European Crowdfunding Network welcomes the European Commission's Green Paper on Capital Market Union that among other objectives seeks to enable alternative forms of financing, including crowdfunding.

1. Beyond the five priority areas identified for short term action, what other areas should be prioritised?

The five priority areas are well chosen and targeted. What will make difference is the speed of implementation of the individual measures. The CMU should be able to deliver results quickly according to milestones. The execution of measures should ensure no momentum would be lost in accelerating the European economy.
Europe should strengthen its own players so that they can leverage their home market and compete internationally. Otherwise, the inevitable 'globalization' and the progressive liberalization through bilateral or multilateral agreements will make Europe an economic follower and not a leader. And that will translate in lack of competitiveness, slower economic growth and less job creation.

5. What further measures could help to increase access to funding and channelling of funds to those who need them?

EU capital markets (both debt and equity) are complementary to a strong and stable banking sector. Only together they can create flexible and fast access to funds by of European start-ups and SMEs. This includes making investments also more accessible to non-bank investors, such as retail investors, business angels, seed funds, venture capital funds, alternative funds, MTF, growth markets, main markets of stock exchanges, etc.

An efficient capital market union must remove cross-border barriers for Europe's entrepreneurs and investors and reinforce incentives. This means also reviewing – simplifying – financial regulations in order to create optimal framework conditions for businesses. Without lifting restrictions and a substantial pick-up in private investment activity, the economic recovery will not be on a solid footing.

A comparison among European Member States with different degrees of financial integration shows that the better the ecosystem, the better companies can scale up which in turn is leading to job creation and economic growth.

It is therefore important that all members of the ecosystem at all stages of the funding escalator for companies are given the right European capital market framework and can successfully operate across borders.

Measures to improve a pan-European funding ecosystem should include facilitation of cross-border investments by developing a common accreditation system and passports for business angels, promoting new co-investment schemes, enhancing flexibility for SMEs quoted on growth markets, reducing regulation for Emerging Growth Companies quoted on the stock exchange, and creating a truly pan-European crowdfunding market to unlock private savings as relevant source of alternative finance.

In order to provide long term financing to SMEs, a number of logistical barriers need also to be addressed. More awareness is needed on capital markets for borrowers, investors and SMEs, via better access to information and education initiatives, to help them understand the different options available.

9. Are there barriers to the development of appropriately regulated crowdfunding or peer to peer platforms including on a cross border basis? If so, how should they be addressed?

Crowdfunding helps SMEs to overcome the demand of capital for early-stage (both debt and equity) financing.
With regard to equity crowdfunding, the lack of convergent regulatory practices on the national and European level, however, already today limit entrepreneurs and equity crowdfunding platforms significantly in promoting offers and campaigns to potential investors. A convergent European regulatory approach and subsequent harmonisation could help overcoming these problems. For example, a recent consultation of the European Commission regarding crowdfunding highlighted that only 38% of the equity-based crowdfunding platforms operate cross-border while almost half of them would like to extend their business to other EU Member States in the future.[1]

With regard to lending and debt crowdfunding, the convergence for the supervision practices of crowdfunding across the EU is desirable not only to avoid regulatory

[1] European Commission (2014) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Unleashing the potential of Crowdfunding in the European Union, Com (2014) 172 final. p. 8.

arbitrage, but also to ensure a level-playing field for all participants across the EU Single Market. The first step of regulatory convergence could be based on clarifying the applicability of existing EU law.

By introducing a harmonised regime allowing cross-border investments through crowdfunding, both SMEs and crowdfunding platforms would be able to fully tap the European capital market.
Such a European approach would only require crowdfunding platforms to obtain one single authorisation/registration from any competent authority within the EEA to be able to offer their services on a cross-border basis throughout the whole EEA. Connecting all platforms, investors and entrepreneurs by creating a European crowdfunding market would lead to more supply and demand for crowdfunding platform services, that would significantly enhance the liquidity of the market. At the same time, more supply and demand would lead to more competition and an improvement in the quality of the services offered by platforms. Such a true internal market would therefore lead to greater market efficiency and economies of scale in the crowdfunding market.

For improving risk mitigation, self-regulatory measures such as transparency and increased accountability should be encouraged. However ECN does not wish to see convergence measures targeting the introduction of harmonized requirements on due diligence procedures on projects or imposing requirements regarding internal procedures for platform operations. These would create unnecessary costs and lengthy compliance issues which would considerably slow down the operation thus reducing a positive impact of investment flows.

Concrete measures could consists in

- In order to increase the potential of alternative means of financing and more specifically of crowdfunding the Commission could review the need of application of MiFID and KYC rules for crowdfunding investment under a certain threshold, such as €1,000 per transaction or €2,500 per year as in electronic money institutions (2007/64/EC).
- European principles regarding transparency and standard practices for platforms - as developed by the European Crowdfunding Stakeholder forum and the European Crowdfunding Network - would help the credibility of the sector.
- A central European registry for SMEs, including the standardization of financial statements per company/SME across Europe, would help reduce transaction costs.

- Define clear rules on the rights and obligations of all stakeholders in a financial crowdfunding operation. The rules should be simple and should not block innovation or over-protect investors.

10.What policy measures could incentivize institutional investors to raise and invest larger amounts and in a broader range of assets, in particular long-term projects, SMEs and innovative and high growth start-ups?

Institutional investors allocate large amount in any chosen asset class. Institutions´ investment into SMEs is handled in general via intermediaries (including crowdfunding platforms). Institutional Investors have three main concerns asset allocations must be large enough, their risk has to be diversified adequately and the investments must be liquid (i.e. can be sold on). To solve these three demands of institutional investors with regard to SME finance, policy measures should aim at developing a secondary market for all SME finance allowing for transparent liquidity for both, debt and equity alike.

15. How can the EU further develop private equity and venture capital as an alternative source of finance for the economy? In particular, what measures could boost the scale of venture capital funds and enhance the exit opportunities for venture capital investors?

There is a need to further develop and recognize the importance of private sources of funding for SMEs, notably start-ups, scale-ups and emerging and high growth companies. Crowdfunding, Business angels, early stage investors, and venture capitalists all contribute to the creation and growth of companies at different stages of their lifecycle and accept a level of risk that the banking sector is unable to consider for a variety of reasons. The CMU should aim to free up the pool of capital sitting with institutional investors, corporate ventures and international investors, but also with families and individuals wishing to invest. Increased transparency across investment forms will ensure that investors can make better asset allocations; it might also help stimulate secondary markets and exit opportunities.

19.What policy measures could increase retail investment? What else could be done to empower and protect EU citizens accessing capital markets?

Increase in retail investment through crowdfunding could be supported with the help of an enhanced self-regulatory approach and a transparent and enforced code of conduct for crowdfunding platforms. Professional standards of transparency and disclosure are just and equitable principals that will contribute to the development of crowdfunding in Europe. Rights are specifically designed for the protection of European “non-professional investors” as defined in the Markets in Financial Instruments Directive (“MiFID”). However, transparency guidelines should apply for all types of crowdfunders, including “professional investors” as defined in the MiFID. Investors as well as donors should benefit from such standards. Harmonised information disclosure could reinforce transparency about crowdfunding platforms and allow the crowd to take educated decisions based on data. Other opportunities with the CMU are public co-investment facilities that allocate next to the crowd in debt or equity structures, similar as already done or envisioned in some EU member states.

For more information please contact:

The European Crowdfunding Network
Adrienne Lotos, Head of Office
E-mail: info@eurocrowd.org

About ECN

The European Crowdfunding Network AISBL, based in Brussels, is a professional network promoting adequate transparency, (self) regulation and governance while offering a combined voice in policy discussion and public opinion building. We support our members in carrying initiatives aimed at innovating, representing, promoting and protecting the European crowdfunding industry. Our aim is to increase the understanding of the key roles that crowdfunding can play in supporting entrepreneurship of all types.